

The KeyPoint Report



Retail Real Estate Trends, Eastern MA/Greater Boston 2012

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About This Report

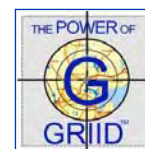
KeyPoint Partners' GRID™ database maintains detailed information on virtually all retail properties in three key retail regions: Eastern Massachusetts, Southern New Hampshire and Greater Hartford, Connecticut. These markets encompass approximately 44% of all retail space in New England.

The database has information on more than 258 million square feet of retail space and approximately 59,800 retail establishments. We maintain this unique market information to support our retail real estate professionals in delivering unique service to our clients. The KeyPoint Reports contain a summary and analysis of market trends and activity for each studied area.

We're pleased to present this report examining the retail real estate marketplace for Eastern Massachusetts/Greater Boston, with a focus on changes during the 11-month period beginning May 1, 2011 and ending March 31, 2012. This report analyzes retail activity and examines changes in supply, vacancy and absorption, retailer activity, and market composition by store size and retail categories.

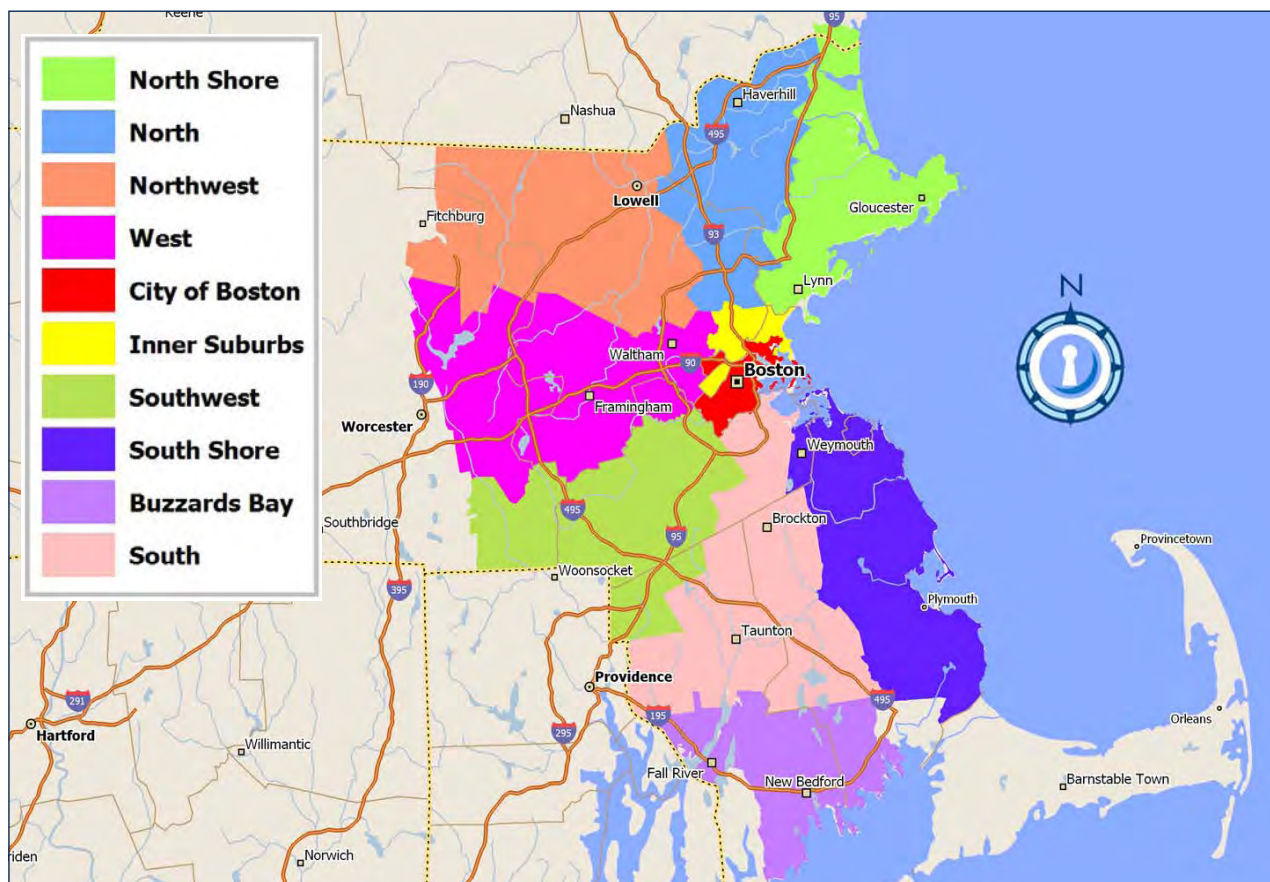
The studied market includes 189 cities and towns in Eastern Massachusetts, representing more than 3,500 square miles (44% of Massachusetts' land area) and approximately 4.95 million people (75.4% of the state population).

NEW: Our report this year includes an additional graph (Figure 5), which illustrates the historical relationship between retail space supply, the retail vacancy rate, and absorption of retail space in Eastern Massachusetts/Greater Boston, according to KeyPoint Partners' GRID™ database, and US retail sales annual change between 2002 and 2012.



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Figure 1: Study Area



General Observations

With new retail construction limited, total inventory in Eastern Massachusetts stands at 189.4 million square feet, a modest increase of 0.1% from the prior study period. At the same time, the vacancy rate in the region showed a net decline from 9.0% to 8.9%, equating to a reduction in unoccupied space of only 200,000 square feet. It would have been a much better year for net absorption had it not been for the demise of Borders and Syms/Filene's Basement, which gave up 510,000 square feet in 19 locations, helping to bump the vacancy rate up from a low of 8.7% earlier in the year. Additionally, there were a number of big box closings that left significant vacancies behind. Nevertheless, this reduction makes back-to-back years in which vacancy has trended in the right direction.

As a result of limited retail development in Eastern Massachusetts, and only a nominal reduction in vacant space, net positive absorption in the region was held to a mere 270,600 square feet, disappointing given the relatively strong comeback exhibited last year when the region produced net absorption of 3.7 million square feet, the strongest rate since 2005.

Among the 10 submarkets in Eastern Massachusetts, Buzzard's Bay carries over from last year with the highest vacancy rate at 11.1%, unchanged from a year ago. As they did last year, high vacancy rates in New Bedford and Fall River negatively skew the submarket level, because while these two cities encompass 38% of the Buzzard's Bay submarket retail inventory, they represent 50% of the vacancy. Although the City of Boston vacancy rate of 9.0% is slightly above the region average, this submarket showed the largest percentage decline from last year, falling from 10.5% and shedding approximately 259,000 square feet of empty space. Another sector showing marked improvement is the Inner Suburb submarket, declining from 8.8% to 7.4%. Part of this decline occurred through "addition by subtraction" in the form of building demolition, most notably the vacant 117,100 square foot National Wholesale Liquidator store, which was razed as part of the Northgate Shopping Center redevelopment in Revere. The lowest vacancy rate in the region again occurred in the North Shore where the vacancy rate remained 7.3%.

City and town rankings, with respect to total retail square footage, remain the same for the third consecutive year. Boston, Cambridge, and Brockton again hold the top three spots, followed by areas with a regional retail focus such as Natick, Burlington, Peabody, and Saugus.

With respect to vacancy, Westborough jumped into the top spot this year with a 21.8% vacancy rate, dramatically higher

than the year-ago figure of 13.9%. Much of the vacancy increase resulted from the opening of Northborough Crossing, which includes a number of relocated tenants from the abutting town of Westborough, including BJ's, TJMaxx, Dress Barn, and likely resulted in other retailer closings due to the competitive impact. The lowest vacancy rate in the region (in towns with at least 500,000 square feet of retail) was recorded by Abington at 1.8%, which has held the number one position for three consecutive years. The remaining top ten finishers in this ranking all finished the year with vacancy rates of 4.4% or less.

Small tenant vacancy remains troublesome in 2012. The vacancy rate in tenant categories 0-2,499 square feet and 2,500-4,999 square feet inched up this year to 13.9% and 12.0%, respectively. These are the two highest rates among the eight size ranges. Failure of mom-and-pops is the largest factor. Vacancy among tenants between 5,000 and 9,999 square feet is 11.5%, also well above the region average but at least on a downward trend from the 12.4% level reported last year. The remaining categories above 10,000 square feet are in relatively good shape, all significantly below the region average, with the exception of the 25,000-49,999 square foot range, which stands at 9.1%. However, this segment has trended down considerably from the levels of 10.4% in 2010 and 9.8% in 2011 as vacancies left by defunct retailers such as Circuit City, Linens 'n Things, Borders, Filene's Basement and AJ Wright are absorbed.

It was another quiet year for developers, with only one major shopping center development coming online during the year. The September 2011 opening of Northborough Crossing, the 650,000 square foot (retail) mixed-use project in Northborough, marked the entry of Wegmans Food Market into Eastern Massachusetts. Other big box players located there include BJ's, Kohl's, Toys R Us, TJ Maxx, Golf Town, Michael's, and PetSmart. The only other center to open during the year larger than 100,000 square feet was the 201,100 square foot RK Swansea Place anchored by Target and a relocated Marshalls.

A number of big box retailers expanded last year. CW Price, a new entry into Eastern Massachusetts, acquired six former AJ Wright stores, totaling 172,800 square feet, the most square footage growth of any retailer. Wegmans, another new entry noted previously, added 138,000 square feet with its Northborough Crossing location. Target ranked third, adding a 137,200 square foot unit in Swansea.

People's United Bank led all retailers with the number of new locations, adding 25 branches, 22 by way of the Danversbank acquisition and conversion. Subway added 17 locations, fol-

lowed by Metro PCS with 13 new units.

Borders departure added more vacancy to the region than any other retailer, 281,300 square feet spread across 11 stores. Borders also closed seven stores in the prior study period. Comfort Furniture closed its 222,800 square foot warehouse store in Lowell that had been in operation since 1945. Filene's Basement/Syms closed eight units, equating to 232,500 square feet and Lowe's closed a 141,300 square foot store in Haverhill.

Through bankruptcy proceedings, Friendly's Ice Cream shed 24 stores but still operates 33 units in Eastern Massachusetts. Danversbank also is down 24 locations due to the acquisition by People's United Bank. Closing 20 units was Curves for Women. This is a franchise that had added 20 units as recently as 2005, and was ranked number two in store count growth that year.

Curves is clearly representative of "good concept, poor execution", given that the Health & Fitness category heads our list of growing business classifications by square footage, gaining 476,800 square feet, and is ranked third in unit growth, adding 34 locations. Planet Fitness, Best Fitness, LA Fitness, Equinox, and Work-Out-World all contributed to this category growth. Other business classifications showing significant growth are Eating Places, Food Stores-Grocery, and Department Stores. A turn-around in the restaurant industry certainly helped. The addition of Wegmans, Target, and Kohl's also contributed to the growth.

On the list of declining business classifications was Furniture, which hopefully is bottoming-out prior to a potential growth period as home sales begin to show significant year-over-year gains. Book Stores and Building Materials follow with Borders and Lowe's closings largely responsible.

All in all, results from 2012 reflect a lukewarm retail environment. Vacancy declined, but only modestly. Retail inventory is up, but negligibly. Big box space left behind by liquidating retail firms such as Circuit City, Linen 'n Things, Comp USA, and Ultimate Electronics has been substantially absorbed but, as we found out during the past year, the fallout is not quite over as evidenced by the demise of Borders and Filene's Basement/Syms stores, and other closings.

As expected, major retail developments has slowed to a crawl. Northborough Crossing and RK Swansea Place are the only other projects of more than 100,000 square feet to open in the past 12 months.

At the same time retail sales have been showing steady growth. In fact, using ICSC monthly retail sales figures, comp-

stores have not had a negative month since November 2009. There have been a slew of recent announcements that retailers are expanding again. A small sampling shows that in 2012 DSW is adding 35 to 40 stores, Dollar General plans to open another 625 units, Ann Inc. plans to open 65 new stores, and in fiscal 2013 Urban Outfitters plans to open 55 to 60 new stores.

Furthermore, signs point to developers revving up again. WS Development has been working on several redevelopment projects: Redstone Shopping Center in Stoneham; Chestnut Hill Shopping Center in Newton; and Lynnfield Marketstreet, a new 680,000 square foot lifestyle center project in Lynnfield that will be anchored by Whole Foods Market and King's entertainment facility. Nordblom recently received approval from the Town of Burlington for its own King's facility, part of the new 300,000 square foot 3rd Ave. project that also will be anchored by a 135,000 square foot Wegmans. Another project breathing new life is the former Westwood Station, although in a scaled-down version of the original concept. The 130-acre site in Westwood was recently sold, and the plan now is to develop 500,000 square feet of retail, housing, office, and a hotel. The new name for the project is University Station, and it is expected that Wegmans will be part of this project as well. Tremont Crossing represents the latest announcement of a major mixed-use development. Feldco Development recently filed plans for a development in Roxbury featuring 500,000 square feet of large format retailers. Feldco is also developing West Bridgewater Commons, a proposed 400,000 square foot retail project.

The job market continues to show gradual improvement as well. The March unemployment rate in Massachusetts declined to 6.5%, its lowest level since November 2008. It was also reported that March home sales in the Bay State were up 18.4% from the same month last year, the eight consecutive month that home sales have increased.

So after very cloudy years in 2009 and 2010, in 2011 we expressed cautious optimism for 2012. To say there won't be any more bumps in the road may be a stretch, but the industry is clearly out of the woods and well on the path to recovery. However, the long-term success of the industry depends largely on how well it adapts to the new world order of retailing, how it copes with ecommerce, and how it adjusts to the new frontier of social media. Let's just hope the new retail cycle underway now is not short-lived.



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Historical Market Vacancy Rate

The chart below presents retail vacancy rates in Eastern Massachusetts (based on our GRID™ database and previous KeyPoint Reports) relative to annual retail sales performance as reported by the US Census Bureau. The fact that retail vacancy rose so markedly in the last several years after such a precipitous drop in sales, and the subsequent bankruptcies and closings, is not surprising to anyone in the industry, but it is somewhat dramatic to see it so strikingly illustrated. As we enter recovery we see the lines trending in more positive directions.

Figure 2: Historical Vacancy Rate vs. Retail Sales



Supply

As of March 31, 2012, the total retail real estate inventory was 189.4 million square feet, a gain of approximately 114,200 square feet, or 0.1%, compared to the year-ago figure of 189.3 million square feet.

Figure 3: Summary Findings for Study Area

Category	2012	2011	% Change
Total Market Size (Square Feet)	189,407,000	189,292,800	0.1%
Total Number of Retail Properties	19,900	20,100	-0.6%
Total Number of Retail Establishments	46,200	46,400	-0.4%
Total Market Vacancy Square Feet	16,810,500	16,966,900	-1.5%
Vacant Stores	6,100	6,100	-0.3%
Vacancy Rate	8.9%	9.0%	-1.5%
Total Retail Space Per Capita	38.0	37.5	1.3%
Retail Property Average Size	9,500	9,400	0.7%
Retail Store Average Size	4,100	4,100	0.5%

Vacancy

The year-end vacancy rate in Eastern Massachusetts was 8.9%. Vacancy decreased to approximately 16.8 million square feet during the past year, a net reduction in unoccupied space of 156,400 square feet, or approximately 1.5%. More than 500,000 square feet of store closings at Borders and Filene's Basement/Syms effectively moved the vacancy rate 30 basis points higher, preventing a significantly better year-end result.

Figure 4: Regional Highlights

Region	2012 Square Feet	%Change in Supply	Vacancy Rate 2012	Vacancy Rate 2011
Buzzard's Bay	13,923,000	-0.7%	11.1%	11.1%
City of Boston	18,396,200	1.5%	9.0%	10.5%
Inner Suburb	22,283,200	1.6%	7.4%	8.8%
North	15,675,600	0.3%	11.0%	9.9%
North Shore	19,999,800	-0.3%	7.3%	7.3%
Northwest	17,219,000	0.2%	7.9%	7.5%
South	23,137,500	2.7%	9.1%	9.1%
South Shore	13,527,200	2.9%	9.4%	9.9%
Southwest	20,121,400	1.4%	8.2%	7.6%
West	25,125,100	2.6%	9.5%	9.0%

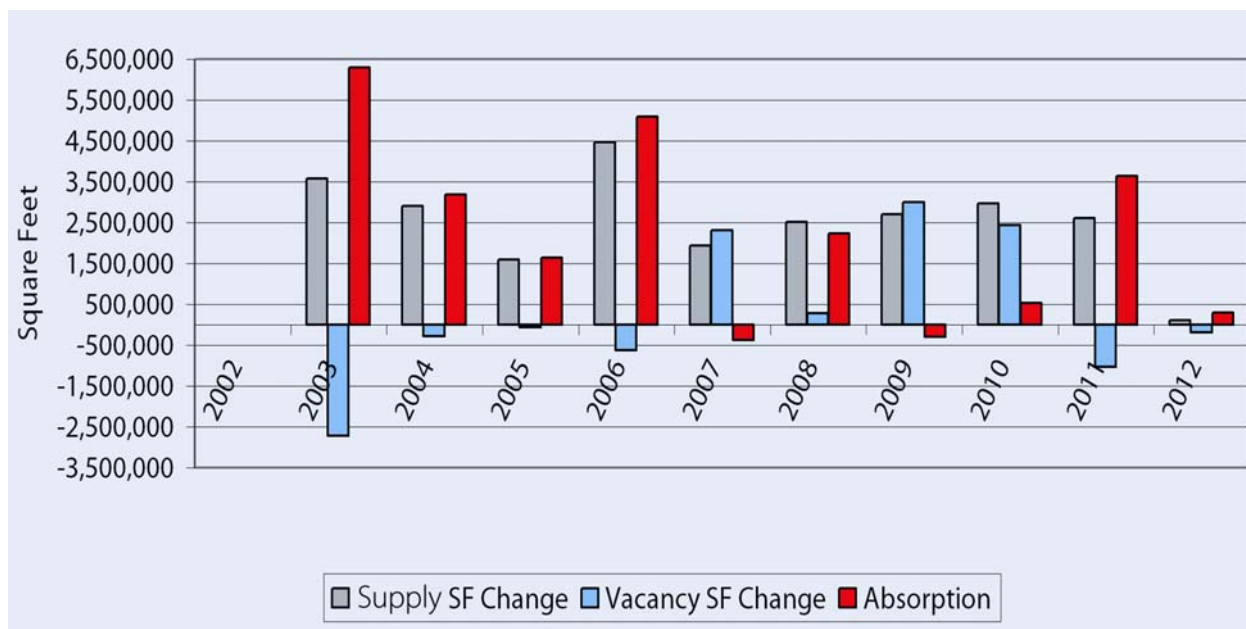
Absorption

With development lagging in the region and more big box closings, only modest positive absorption of 270,600 square feet occurred during the 11-month study period. Only two new shopping centers larger than 100,000 square feet were developed.

NEW: Historical Absorption

The new graph below illustrates the historical relationship between retail space supply, the retail vacancy rate, and absorption of retail space in Eastern Massachusetts/Greater Boston, according to KeyPoint Partners' GRIID™ database, and US retail sales annual change between 2002 and 2012. The 2012 data is notable in that there was only nominal change in inventory and vacancy.

Figure 5: Historical Absorption



City & Town Rankings

The City of Boston again leads the region in total retail inventory with more than 18.4 million square feet. Cambridge holds onto the #2 ranking from a year ago with 4.4 million square feet, while Brockton holds the #3 position with 3.8 million square feet. Natick/Framingham and Danvers/Peabody encompass 7.1 million and 6.7 million square feet, respectively, and clearly lead the suburban markets. Among cities and towns with at least 500,000 square feet of retail space, Abington, Bridgewater, and Northborough were healthiest with respect to vacancy rate. Hingham and Hudson follow, all with rates under 4.0%. Conversely, Westborough moved into the top spot for the highest vacancy rate and the only town above 20%, coming in at 21.8%. North Reading and Norwood were next with vacancy rates of 19.4% and 19.0%, respectively. The top ten towns in this category all had vacancy rates higher than 15%.

Figure 6: City & Town Rankings

<u>Most Retail Space (Square Feet)</u>	<u>Highest Vacancy Rate*</u>	<u>Prior Rank</u>	<u>Lowest Vacancy Rate*</u>	<u>Prior Rank</u>			
Boston	18,396,200	Westborough	21.8%	15	Abington	1.8%	1
Cambridge	4,444,900	North Reading	19.4%	4	Bridgewater	2.7%	11
Brockton	3,772,000	Norwood	19.0%	12	Northborough	3.3%	NA
Framingham	3,598,400	Middleborough	18.8%	10	Hingham	3.6%	42
Natick	3,514,000	West Bridgewater	18.4%	1	Hudson	3.7%	7
Danvers	3,460,200	Haverhill	17.3%	77	Wrentham	4.1%	2
Saugus	3,402,000	Lawrence	16.6%	2	Somerset	4.2%	6
Burlington	3,318,500	Needham	15.9%	22	Franklin	4.2%	20
Peabody	3,271,600	Swansea	15.7%	6	Plainville	4.4%	13
Leominster	3,223,300	Taunton	15.5%	13	Watertown	4.4%	33

* For cities and towns with 500,000 square feet or more of retail space.
NOTE: For towns with supply close to the threshold, 1 large vacant space can account for high vacancy percentage, without necessarily indicating market health.

Market Composition & Vacancy by Tenant Size

Vacancy among smaller stores remains a major concern in Eastern Massachusetts. All three size categories under 10,000 square feet ended the year with double digit vacancy rates. Failure among mom and pop operators is largely responsible. Retail vacancy among 25,000-49,999 square foot units also remains high, mainly the result of Borders and Filene's Basement/Syms closings during the year.

Figure 7: Market Composition & Vacancy by Tenant Size

<u>Tenant Size</u>	<u>Market Share 2012</u>	<u>Market Share 2011</u>	<u>Vacancy Rate 2012</u>	<u>Vacancy Rate 2011</u>
Less Than 2,500 SF	20.5%	20.5%	13.9%	13.8%
2,500 to 4,999 SF	16.0%	15.8%	12.0%	11.8%
5,000 to 9,999 SF	12.8%	12.8%	11.5%	12.4%
10,000 to 24,999 SF	14.1%	13.8%	7.9%	7.7%
25,000 to 49,999 SF	10.5%	10.6%	9.1%	9.8%
50,000 to 99,999 SF	10.7%	10.8%	3.3%	3.5%
100,000 to 199,999 SF	13.6%	13.7%	1.5%	1.4%
200,000 SF and above	1.8%	1.9%	0.0%	0.0%

Retailer Highlights

The region encompasses over 46,000 retail establishments, representing approximately 26,800 unique retailers. The following summarizes store openings and closings over the study period:

Figure 9: Retailer Expansion & Contraction (Net)

EXPANSION BY SQUARE FEET					CONTRACTION BY SQUARE FEET			
<u>Retailer</u>	<u>New Stores</u>	<u>Total Stores</u>	<u>Net New SF</u>	<u>Total SF</u>	<u>Retailer</u>	<u>Stores Closed</u>	<u>Stores Remaining</u>	<u>Square Feet Closed</u>
C.W. Price	6	6	172,800	172,800	Borders Books & Music	11	0	281,300
Wegman's	1	1	138,000	138,000	Filene's Basement	8	0	229,200
Target	1	31	137,200	4,001,500	Comfort Furniture	1	0	222,800
Kmart	1	13	104,600	1,204,400	Lowe's Home Improvement	1	23	141,300
People's United Bank	25	34	83,200	1,882,200	Sears Essentials	1	0	125,600
Kohl's	1	20	80,100	112,600	Macy's	1	22	119,800
HomeGoods	3	13	76,400	403,200	Ultimate Electronics	3	0	104,100
Planet Fitness	4	39	73,700	760,100	Mill Stores	1	6	93,200
Dollar Tree	5	56	66,500	2,784,500	Danversbank	24	0	76,900
CVS Pharmacy	3	258	66,500	2,784,500	Fashion Bug	7	10	68,900

EXPANSION BY NUMBER OF STORES				CONTRACTION BY NUMBER OF STORES		
<u>Retailer</u>	<u># of New Stores</u>	<u>Total Stores</u>		<u>Retailer</u>	<u>Stores Closed</u>	<u>Stores Remaining</u>
People's United Bank	30	34		Danversbank	24	0
Subway Sandwiches & Salads	17	153		Friendly Ice Cream	24	33
Metro PCS	13	69		Curves For Women	20	26
Supercuts	11	76		Borders Books & Music	11	0
Koko Fit Club	9	13		Filene's Basement	8	0
Five Guys Burgers & Fries	9	22		Piccadilly Pub Restaurants	7	0
Sprint	7	39		Fashion Bug	7	10
C.W. Price	6	6		Grand Wireless	6	3
Great Clips	6	11		McDonalds	5	157
Sally Beauty Supply	5	36		T-Mobile	5	44
Massage Envy	5	13		D'Angelo's Sandwich Shop	5	72

Methodology

The data for this study includes all public retail space in the study area except for a few exclusions discussed below. The information in our database has been compiled from a variety of sources. A member of KeyPoint Partners' research staff has visited each store/shopping center in order to verify and/or acquire the necessary information. The area for each space is obtained from sources deemed reliable, such as the owner or leasing agent, is paced off by our researchers or otherwise measured. Retail categories and SIC Codes are obtained from a leading business database, InfoUSA, when available. Each entry is field verified or determined by our research staff. In general, public retail space is characterized as all space currently, or most recently, utilized in selling or renting retail goods and/or services to the public. There are no size restrictions for stores or shopping centers. Certain retail classifications are excluded, including automobile dealerships, gasoline service stations, automobile repair shops and quasi-retail services, such as stock brokers, real estate agents, insurance agents, etc., unless such establishments are located in shopping centers containing typical retail tenants. In some cases wholesale or quasi-retail establishments have been included in the database if information from InfoUSA or our field research indicates that goods and/or services are being offered to the public from the location. Some establishments available to the public but typically serving primarily the needs of other users of a facility, such as a cafeteria in an office building or a beauty salon located inside a hotel, may also be excluded. Demographic information used in this study was provided by Scan/US.

Cities & Towns in the Study Area:

North Shore

Amesbury, Beverly, Danvers, Essex, Gloucester, Hamilton, Ipswich, Lynn, Manchester, Marblehead, Nahant, Newbury, Newburyport, Peabody, Rockport, Rowley, Salem, Salisbury, Saugus, Swampscott, Topsfield, Wenham

North

Andover, Boxford, Georgetown, Groveland, Haverhill, Lawrence, Lynnfield, Melrose, Merrimac, Methuen, Middleton, North Andover, North Reading, Reading, Stoneham, Tewksbury, Wakefield, West Newbury, Wilmington, Winchester, Woburn

Northwest

Acton, Ayer, Bedford, Billerica, Boxborough, Burlington, Carlisle, Chelmsford, Concord, Dracut, Dunstable, Groton, Harvard, Lancaster, Leominster, Lexington, Lincoln, Littleton, Lowell, Lunenburg, Pepperell, Shirley, Townsend, Tyngsborough, Westford

West

Ashland, Berlin, Bolton, Boylston, Clinton, Framingham, Grafton, Holliston, Hopkinton, Hudson, Marlborough, Maynard, Natick, Needham, Newton, Northborough, Northbridge, Sherborn, Shrewsbury, Southborough, Sterling, Stow, Sudbury, Upton, Waltham, Wayland, Wellesley, West Boylston, Westborough, Weston

Southwest

Attleboro, Bellingham, Blackstone, Dedham, Dover, Foxborough, Franklin, Hopedale, Mansfield, Medfield, Medway, Mendon, Milford, Millis, Millville, Norfolk, North Attleborough, Norwood, Plainville, Sharon, Uxbridge, Walpole, Westwood, Wrentham

South

Abington, Avon, Berkley, Braintree, Bridgewater, Brockton, Canton, Dighton, East Bridgewater, Easton, Holbrook, Lakeville, Middleborough, Norton, Randolph, Raynham, Rehoboth, Seekonk, Stoughton, Taunton, West Bridgewater, Whitman

South Shore

Carver, Cohasset, Duxbury, Halifax, Hanover, Hanson, Hingham, Hull, Kingston, Marshfield, Norwell, Pembroke, Plymouth, Plympton, Rockland, Scituate, Weymouth

Buzzards Bay

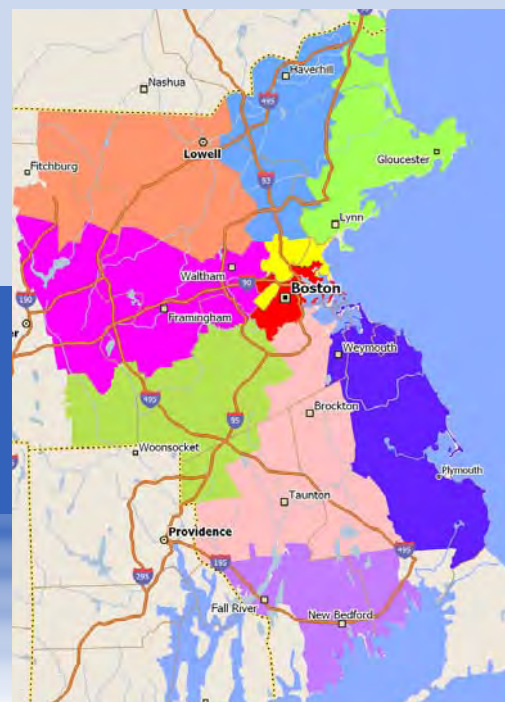
Acushnet, Dartmouth, Fairhaven, Fall River, Freetown, Marion, Mattapoisett, New Bedford, Rochester, Somerset, Swansea, Wareham, Westport

City of Boston

Boston

Inner Suburbs

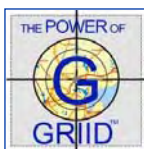
Arlington, Belmont, Brookline, Cambridge, Chelsea, Everett, Malden, Medford, Milton, Quincy, Revere, Somerville, Watertown, Winthrop



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