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March 30, 2011 - April 26, 2011 | News & Analysis on Commerce in South Louisiana | www.acadianabusiness.com

Retail Roundup

Drilling down on Lafayette Parish's retail market reveals strength and ample demand to absorb new development.

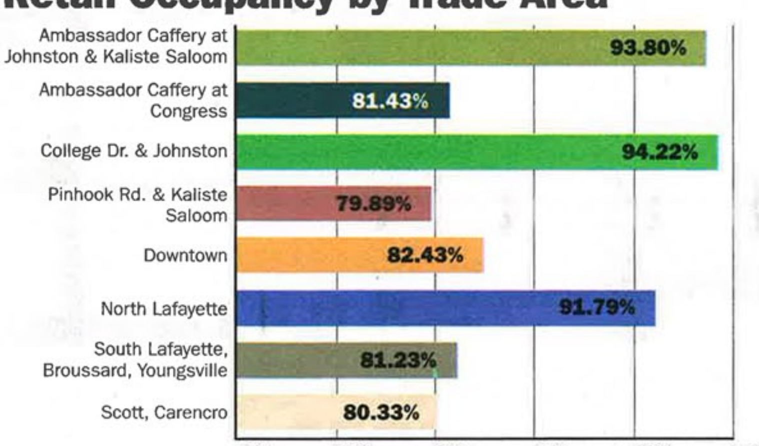
Those who gathered at LITE for the first Acadiana Commercial Outlook on March 16 were provided with quick presentations on the health and future outlooks of the industrial, hospitality, multi-family, office and retail product types throughout the parish. Also speaking at the event was Lt. Gov. Jay Dardenne, officials from LEDA and Lafayette Consolidated Government, reps from the local banking community and integral figures involved with Lafayette's comprehensive planning and fiber initiatives.

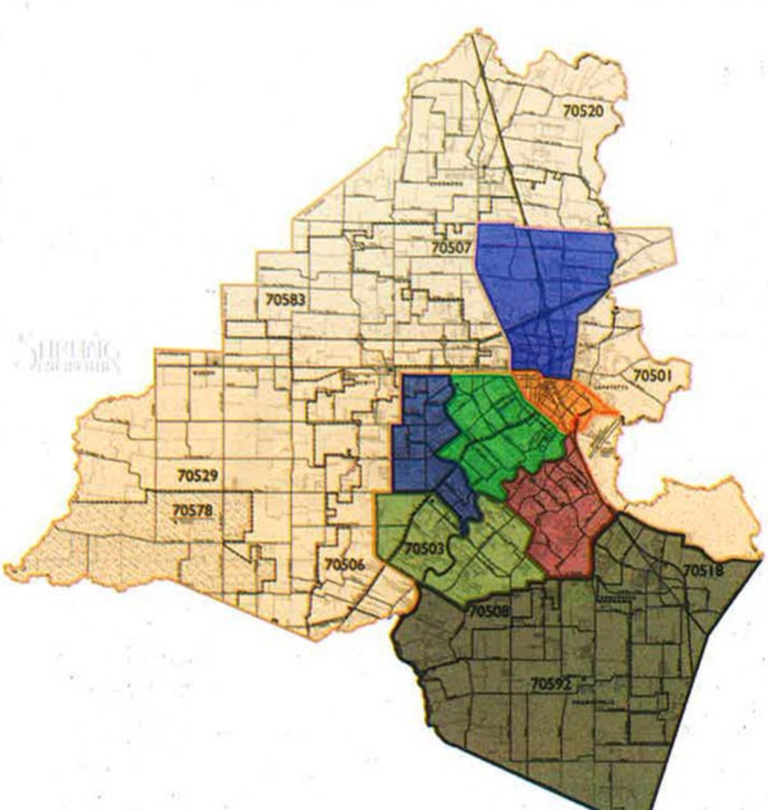
I provided the retail segment of the event and will share a few of the highlights surrounding the statistics for that presentation.

As a small preface to the discussion, I'd like to note that the following data reflects roughly 5.1 million square feet of retail space throughout the parish that was surveyed. Also, the shopping centers that were the focal point are either nationally anchored, contained a tenant mix of national or regional retailers, or were a main shopping destination in their respective trade area. (The million-square-foot Mall of Acadiana was not included, as it would skew the results because it is an entity within itself and has totally different leasing characteristics.) The smaller, mom and pop-owned centers were not included for a multitude of reasons; therefore, the small shop numbers reflected are trended slightly higher.

The first piece of information acquired was a measure of the percentage of square footage by tenant type. Once the compilation of data was complete and began to take shape in chart form, the results were interesting. I expected the small-shop percentage to be much higher, but it was directly in line with the junior anchor space at 17% of the 5.1 million square feet; with anchor square footage dominating at 66%. Because the previous statistic caught me by surprise, a quick evaluation on the actual number of tenants in each classification was done. The numbers are almost inverted with 400+ small shop tenants compared to only 43 anchors. This is in line with expectations and exposes how quickly large tenants consume the marketplace with their size and become dominating players on the current retail conditions.

Retail Occupancy by Trade Area





DEVELOPMENT

RYAN PECOT

The quick definitions of these three classifications mentioned above are simple: anchor is fairly obvious — the Targets, Kohl's, and Bed Bath and Beyonds of the world, which are typically 20,000 square feet up to 200,000. Junior anchors are typically just a bit smaller yet still create a strong draw to a shopping center. They range in size from 5,000-15,000 sq. ft., depending on their relationship with the center. Small shop is the little guys, both national and local, that fill in the tenant mix and thrive off the anchor tenants. Most fall within 500 to 2,500 sq. ft.

The first logical place to derive the health of the market would be to look at the occupancy versus vacancy for the entire market. The Lafayette market is quite healthy at 85% of our retail square footage occupied. While this might seem a bit low, we have very few glaring vacancies, with most staggered throughout the market and not creating the pockets of blight that other cities have endured since the recession. We can then break down this occupancy/vacancy number by classification with small-shop just under 14%, junior anchors at 6.44% and anchors rounding it out at 7.42%. During day-to-day brokerage work, it didn't seem that there was 14% of small-shop supply available, but some light was shed on this figure once we broke down the vacancy by trade area. As you can see in the accompanying Occupancy Percentage by Trade Area chart, there are some contrasts as to what is a more desired area. With that said, also realize that one or two poorly leased centers in a trade area can skew the results since the denominator is not as great as the total 5.1 million square feet of the market combined.

- It was no surprise that the Ambassador Caffery from Johnston to Kaliste Saloom area was at the top, since it is by far the most desired area for a new tenant entering the market.
- Also expected was the strength of the very established College Drive/Johnston Street submarket because of its centralized geographic location and shopping center owners' strong ability to compete with the more expensive, newer developments.
- I was initially caught off guard when looking at north Lafayette, but there is obviously a pent up demand and less supply, therefore posting this solid percentage.
- The northern Ambassador Caffery corridor and mid-block south Johnston have a few centers that have not fully picked up steam or are in a redevelopment mode, which hurt this area.
- The Pinhook/Kaliste Saloom area's small shop was fairly strong, but a few large vacancies kept this number the lowest.
- Downtown retail is solid, and I expect it to get stronger when the next phase of the Streetscape program is complete.
- Last are the two outlying regions that barely had enough square footage to count only five years ago but are growing rapidly. This new space is being absorbed at a nice pace.

Next let's move to dollars and cents, with the first figure inspected being the average base lease rate per square foot for the entire market. It's no surprise the small shop is at the top of the scale and bigger space is more affordable. Like anything else, the more you consume at once, the less it costs. Honestly the small shop square foot rate was a little lower than anticipated, while the anchor rent was a bit higher. It became apparent by digging deeper that the small shop rate was brought down by some of the older, more established trade areas where construction costs have been amortized already over many years. The explanation on the anchor being higher than expected is simply that most anchor spaces are actually owned by the tenant; therefore, they do not pay rent to the landlord who owns the rest of the shopping center.

Most consumers don't realize that the different centers throughout town are separately owned by multiple entities. If broken down to derive a comparable rental figure, the 175,000-square-foot Super Target would only pay $2-$3/sq. ft. if it were a lease structure. Combine that with the other anchor square footage and the rate would be much lower as a whole.

Before reviewing the final Average Price by Trade Area chart, I fully expected the most coveted area, Ambassador Caffery from Johnston to Kaliste Saloom to lead the way, and it did by almost $1.75/sq. ft. Next in line was the new square footage added to the market in the Broussard/Youngsville trade area, which should be providing a decent return on investment for those developers; most of whom are local. Not a real surprise was to see the most established, traditional retail area be at the bottom — the College Drive/Johnston Street submarket. Again, these older centers are able to offer more competitive lease deals because initial construction has been amortized over decades, creating a competitive advantage for the ownership. The remainder of the trade areas fell within a $2/sq. ft. window of each other — a very stable range.

Just out of curiosity, I also looked at when the surveyed square footage was built, and the results were surprising. Of the 5+ million square feet inventoried, 56% was introduced to the market in the 100-year period from 1900 to 2000. Next, 13% came online in 2001-2005. And finally, a whopping 31% of Lafayette's total supply was built within the last five years — a good bit coming online while the rest of the nation has been fighting through the deepest recession since the Great Depression. Proving its resiliently, Lafayette once again has been able to shine and keep a healthy economy chugging along. There is a reason that many markets across the country are envious of our home.

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