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R.J. Brunelli Survey

Vacancies along Central & Northern NJ's Retail Corridors rise to 8.3% in wake of A&P bankruptcy

With the effects of the Great Atlantic & Pacific Tea Co. bankruptcy rippling through the market, the combined vacancy rate along central and northern New Jersey's 10 major retail corridors escalated to 8.3% from 7.4% a year ago, according to a new survey by R.J. Brunelli & Co., LLC.

Ron DeLuca

The Old Bridge-based brokerage's 26th annual survey of the two regions' retail real estate market found a total of 5.18 million s/f of vacancies in the 62.36 million s/f evaluated during the third quarter of 2015. This compared with 4.38 million s/f of empty space in 61.23 million studied in the firm's 2014 survey. Over the last eight years, the combined vacancy rate ranged from a low of 4.2% in 2008 to the high of 9.5% in 2013.

This year's jump largely reflected a 130-basis-point increase in the central region, where the vacancy factor rose to 8.8% (2.87 million s/f available in the 32.85 million s/f studied) from 7.5% in 2014. In the northern region, the rate grew 50 basis points to 7.8% (2.31 million s/f vacant in the 29.77 million s/f reviewed) from 7.3% a year ago.

Notably, big-box spaces (20,000 s/f and above) accounted for 2.01 million s/f , or 44.5%, of the vacancies, up from 1.31 million s/f, or 28.8%, in 2014. The sharp uptick put the big-box ratio above the 42.1% registered in 2013, but still down from 47.0% in 2012 and 49.6% in 2011. Big-boxes drove 43.6% of the vacancies in central counties (up from 34.1% in 2014) and 45.4% in the north (nearly double last year's 23.2% ratio).

Although A&P was a major contributor to the big-box vacancy surge along the central region's corridors, northern counties were more of a mixed bag, with closed Kmarts in Paramus and Randolph and the shuttered Macy's at Ledgewood Mall (now undergoing redevelopment) combining for nearly 324,000 s/f of the market's 1.02 million s/f of empty big-box space.

As in past years, the R.J. Brunelli study evaluated shopping centers and freestanding buildings exceeding 2,000 s/f including restaurants, auto service facilities and vacant auto dealerships whose location and configuration makes them viable for retail use. Regional malls and centers under construction or in the early or mid stages of major redevelopment are excluded. The central region includes properties along Rtes. 1, 9, 18 and 35 and an adjoining section of Rte. 36 in Middlesex, Monmouth, Mercer and parts of northern Ocean County. The northern region covers heavily retailed parts of Rtes. 4, 10, 17, 22, 23, 46/3 and certain intersecting arteries in Bergen, Essex, Morris, Passaic, Somerset and Union counties.

"Clearly, the A&P bankruptcy was the big story for New Jersey retail real estate in 2015," said R.J. Brunelli CEO/principal Ron DeLuca, who directs the firm's survey. "While the bankruptcy process is still being played out, along the 10 central and northern retail corridors alone, recent closures of five A&P and three Pathmark locations that remain unclaimed placed more than 438,000 s/f of space on the market. Indicative of the impact of the closings, had those stores remained occupied, the aggregate vacancy factor for the two regions would have edged up 20 basis points to 7.6%."

DeLuca added that those totals exclude a number of A&P, Pathmark and Food Basics locations off the corridors that have yet to attract approved bids in bankruptcy court. "Still, a number of supermarket companies pounced on the opportunities presented through A&P's demise to expand their New Jersey footprint, most notably Acme, which took 35 sites, including 25 in northern counties, five in the central region and another five in the southern Shore region. These sites, most of which were located outside the 10 corridors, accounted for nearly half of the 72 locations the chain took in an area extending from Maryland to Connecticut."

Stop & Shop, the second largest player in the A&P auction, took 24 locations in the metro New York area, including three in northern New Jersey. The eight other New Jersey locations acquired to date through the auctions—all but one in northern counties—were taken by smaller operators, including several focused on ethnic fare.

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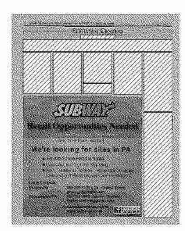
That ethnic group includes California-based Tawa Supermarket Inc., which announced lease acquisitions of Pathmark



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locations on Rte. 1 in Edison and in Jersey City. This will pave the way for a Garden State debut for Tawa, which currently operates 39 Asian supermarkets under the 99 Ranch Market name in California, Washington, Nevada and Texas.

"Tawa's move is emblematic of ethnic grocers' efforts to seize opportunities in areas whose demographics are appropriate for their offer," said DeLuca. "We suspect that some of A&P's remaining locations throughout the state could go to ethnic operators in the months ahead. More conventional chains looking at former A&P sites include The Fresh Market, Best Market, Kings, and others. However, given the competitive climate, we believe that a fair number of locations will ultimately go to non-food uses. Examples to date include the long-vacant Pathmark on Rte. 35 in Middletown, now being subdivided to accommodate TJ Maxx and Bed, Bath & Beyond stores, and the re-leasing of another previously vacant Pathmark and adjoining space on Rte. 1 in North Brunswick to accommodate Raymour & Flanigan. In a number of cases, where zoning allows, landlords will be also looking at non-retail uses that can fill space and drive traffic to satellite tenants."

Taking a closer look at two regions, in central New Jersey, a 30-basis point decrease in the vacancy factor along Rte. 1 to 6.0% was unable to compensate for A&P-induced increases on Rte. 35 (up 90 basis points to 8.1%), Rte. 9 (up 350 basis points to 11.2%) and Rte. 18 (up 180 basis points to 13.9%). Looking back over the past eight years, the region's 8.8% vacancy factor for 2015 compared with a high of 10.5% in 2011 and a low of 4.8% in 2008. In 2015, vacancies were seen in 179 of the 821 properties surveyed.

Roadways in the more mature northern region fared somewhat better, as vacancy factor increases along Rte. 17 (up 200 basis points to 8.2%), Rte. 10 (up 330 basis points to 14.9%) and Rte. 23 (up 230 basis points to 6.9%), were partially offset by improvements on Rte. 46/3 (down 80 basis points to 4.7%), Rte. 22 (down 80 basis points to 6.6%) and Rte. 4 (down 380 basis points to 4.0%). The region's 7.8% vacancy rate for 2015 compared with an eight-year high of 8.9% in 2013 and a low of 3.4% in 2008. In 2015, availabilities were seen in 187 of the 927 properties reviewed.

"In the final analysis, the A&P situation put a dent in the strong progress that was achieved in 2014, when we saw a 210-basis-point drop in the aggregate vacancy rate for the central and northern regions behind multiple deals from a number of big-box, mid-size and small-space retailers, restaurants and service businesses looking to increase their footprint in New Jersey," said Richard Brunelli, the firm's Chairman/Principal. "Still, the impact of this huge bankruptcy could have been far worse. Apart from the A&P's that were scooped up at auction, the past 12 months brought strong absorption of some big boxes that had been on the market for multiple years, as well as well-located spaces that were empty for a year or less. With the overall economy and housing market continuing to recover, albeit at a slow space, prime spaces along the corridors should not sit empty for long. Spaces in 'B' and 'C' centers, however, will remain challenging, requiring landlords and their brokers to work closely with traditional and non-traditional tenants—and, in some cases, zoning officials—on creative solutions." ■