JACKSON RETAIL MARKET EXPERIENCING LIGHT AT THE END OF THE TUNNEL

Jackson’s retail real estate market appears to be in the final stages of the recovery and will likely enter the expansion phase in the next 12 to 24 months. There is approximately 31 million square feet of retail space in the Jackson MSA and less than 0.2 percent new inventory/construction scheduled to deliver in the next 12 months. This lack of new supply can predominately be contributed to the cost of new construction, which has curbed development in the market. According to Integra Realty Resources’ 2016 Jackson Retail Market Report, the average asking rents for community retail centers is 9 percent new inventory/construction.

From an investment sales standpoint, Jackson has seen continued interest and transaction velocity from local and national retail investors in the last 12 to 24 months. As cap rates have compressed nationally, investors have continued to look to tertiary markets, like Jackson, seeking higher yields. The current “going-in” cap rate for acquisitions in the metro area of community retail centers is 8.5 percent, while the national average is 6.9 percent. Cap rates for Jackson neighborhood retail centers is 9 percent, with the national average at 7.1 percent.

Backfilling the City Center

Even though the city of Jackson is currently facing an uphill battle with long term infrastructure issues and decreasing population, there remains strong demand and activity in the retail sector for the state’s capital city. In the County Line Road corridor, a 128,000-square-foot former Sam’s Club was secured by Texas-based At Home, which is scheduled to open this year. In the same corridor, a former Barnes & Noble location will see new life in late 2016 with a 50,000-square-foot Burlington Coat Factory.

Mixed-Use

Highland Village, located in Jackson and originally built in 1972, has seen continual improvement since its purchase by WS Development in 2012. A Whole Foods Market and a reported $12 million in improvements later, the 220,000-square-foot asset has ushered in several other new-to-market entries such as, Kate Spade and lululemon athletica. Located in the newly coined “Lefleur East” neighborhood along I-55 North, the property boasts a great mix of high-end local and national retailers, with more announcements to come soon.

Immediately south of Highland Village, also fronting I-55, sits The District at Eastover, which is currently well underway. The prime 21-acre site was the old Mississippi School for the Blind, which had been abandoned for many years. In 2012, the property was acquired by a local development group that has since been able to execute on its vision for a high-end, mixed-use project. One Eastover Center, a 120,000-square-foot, Class A office building, was recently delivered, while a Residence Inn and The District Lofts are under construction. The Loft component, which will feature apartments with 27,000 square feet of street-level retail showcasing national brands and restaurants, is scheduled for delivery this year.

A Tale of Two Counties

Retail wants to be where the rooftops are, and in the metro area the majority of new home construction is in Rankin and Madison counties. Rankin County continues to see a heavy concentration in the Lakeland Drive corridor, near the intersection of Old Fannin Road and Lakeland Drive, with restaurant and shop space demand continuing to be strong. Panera Bread and Panda Express recently chose this submarket as their first metro area locations, while local and regional favorites such as America’s Half Shell Oyster House have opened locations there.

In Madison County, retail growth shows no signs of slowing. In Ridgeland, The Highland Colony Parkway has continued to be active with the ongoing development of The Township, a 95-acre mixed-use project, as well additional phases of Renaissance, a lifestyle center. Phase III of Renaissance will hopefully include the metro’s first Costco. In the city of Madison, the Grandview Boulevard area continues to see new retail growth with the recent opening of a new Sam’s Club.

Next door, The Forum at Grandview, a 330,000-square-foot community center, is slated to deliver Phase III in late 2016. Across the street, plans for a contemplated 350,000-square-foot retail development, called Grandview East, have been approved by the city of Madison. It is reported that construction of the first phase will begin soon and will include four junior anchor stores with five restaurants.

The overall retail real estate fundamentals of the Jackson MSA appear to be healthy and on the rise. We expect to see vacancy rates continue to decline without any overbuilding occurring. We believe there will be moderate net absorption in conjunction with reasonable rental rate growth.