**RETAIL INDEX**

### RETAIL INCOME RESILIENCE

Retail continued to underperform the Apartment and Industrial sectors in 3Q22. Total returns for Retail, at 0.39% in 3Q22, and 6.65% for the one-year period, lagged the other property sectors except for Office, primarily due to the negative Appreciation component of -0.80% for 3Q22 and 1.61% for the one-year period. Overall, every region and division experienced negative Retail appreciation.

Retail income performance tells a different story. Retail income returns, at 1.19% in 3Q22, and 3.70% for the one-year period, surpassed Apartment, Industrial and Office income returns. Indeed, Retail income was strong overall in every region and division. However, the strength and stability of Retail income was not enough to offset the misfortunes in the appreciation component of the overall yield for Retail.

A dissection of subtype returns is insightful. Retail income for all subtypes showed strength in the quarter except for Single Tenant. Single Tenant returns in the East and West regions were by far the weakest with the East-Single Tenant total return of -2.32% and West-Single Tenant total return of -3.79%. Conversely, certain subtypes in the South and West regions experienced particularly strong returns. In the South region, Neighborhood, Fashion/ Specialty, Power Center, and Community experienced total returns for 3Q22 ranging from 1.11% - 2.51%, and one-year total returns of 11.35% - 12.31%. In the West region, Community and Power Center total returns for 3Q22 were 1.46% and 1.61% respectively, while one-year returns were 13.86% and 11.22%, respectively.

Overall, Retail vacancies are down to near historic levels, and rents have been rising. According to data provider PYMNTS, retail vacancies in 2022 dropped to 6.1%, a 15-year low. Cushman & Wakefield has reported that asking rents for retail spaces are an estimated 16% higher than five years ago. However, because of perceived risks that include concern about the sustainability of consumer demand headed into a downturn and uncertainty about changing store formats, institutional investors have continued to divest of Retail amid rising interest rates and increasing cap rates causing property values to decline. Apprehension towards the Retail sector will likely continue until a visible stabilization in values and growth in overall yield becomes evident.

Retail continues to be a bifurcated market with higher quality grocery-anchored and neighborhood centers exhibiting strong fundamentals. There is little price discovery for those centers in the current capital market environment with so few of those high-quality centers transacting.

Although investors are likely to continue to approach Retail with caution, this could present a buying opportunity for nimble and well-capitalized investors seeking higher and yet secure income yields. Retail store opening announcements are on track to double the amount of store closings in 2022, and in fact, CoStar has reported that retail leasing is on track for its best year since 2018. A Retail strategy that focuses on well-located centers with strong fundamentals, appropriate tenancy that emphasizes needs-based goods and services, in markets experiencing population and employment growth, and in-place rents at or below market, may provide attractive income returns and yield stability during uncertain economic times.

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