

## RETAIL INDEX

### RETAIL MARKET: SLUMPING, BUT IN GOOD COMPANY

Despite healthy retail spending throughout the year, heightened capital market volatility caused by the Fed's tightening cycle was too much for the retail sector to overcome. The retail total return based on properties within the NPI was -1.69% in Q4 2022, marking the sector's weakest quarterly return since Q2 2020. This is a drop from the 2.26% total return in Q1 2022, which had been retail's strongest quarter since Q1 2015. Additionally, the one-year trailing return for the retail property type was 2.69%, which is the second consecutive year of growth.

The decline in total return was driven primarily by negative appreciation of -2.86% in Q4 2022. The decline in value was largely a result of capital market factors, as opposed to operating fundamentals, which have generally fared well over the past 12 months. According to the appreciation index, retail values are now down -2.21% since Q4 2021, making it the second largest drop relative to other property types. Office values are down -7.44% in the same period.

Income returns have been on a slow upward trajectory since Q2 2020, following the COVID-related economic slowdown. In Q4 2022, income returns were 1.25%, which is partially a reflection of the sector's pricing since the pandemic and shows that yields on retail properties remain more elevated than most in the NPI at this stage. Weak appreciation and strong NOI momentum following the pandemic are the drivers of elevated yields today.

Regional returns were led by the South in Q4, while the Midwest region brought up the rear. In the South, the NPI total return was -0.79%, which allowed the region to outperform on a relative basis. The Midwest retail total return was -3.34% in Q4 2022, down from -0.14% in Q3.

Fashion / Specialty and Power Centers fared the best of the major retail subtypes in Q4 2022, with quarterly total returns of -0.11% and -0.50% respectively. Regional malls fared the worst with a quarterly total return of -3.00%. While all the subtypes had negative quarterly return during the final quarter of the year, each property subtype registered at least two quarters of positive returns in 2022.

Although the retail sector registered a negative return to 2022, it outperformed three of four sectors. Only hotel managed a positive return for Q4. One down quarter should not take away from a generally positive 12-month period, in which retail saw sustained positive momentum for the first time since 2017. In fact, industrial, apartment, and office have all experienced sharp declines relative to a robust 2021. These declines are largely driven by interest rate increases in both the Fed Funds rate and the 10-year treasury since mid-year.

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### RETAIL TOTAL RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
4th Q 2022	-3.50	-1.61	-2.00	-3.34	-0.79	-1.54
3rd Q 2022	0.57	0.39	-0.28	-0.14	0.83	0.58
One Year	5.53	2.69	0.33	-0.55	4.82	3.35
Three Years	8.06	-0.33	-1.66	-3.14	0.87	0.28
Five Years	7.46	0.61	-0.68	-2.45	1.44	1.55
Ten Years	8.82	5.75	4.51	3.68	6.66	6.47
Twenty Years	8.63	8.10	7.74	6.39	8.35	8.64

### RETAIL INCOME RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
4th Q 2022	0.95	1.25	1.23	1.30	1.33	1.19
3rd Q 2022	0.93	1.19	1.19	1.17	1.25	1.15
One Year	3.90	4.99	4.90	4.89	5.30	4.88
Three Years	4.11	4.58	4.66	4.49	4.91	4.36
Five Years	4.28	4.63	4.74	4.56	4.90	4.42
Ten Years	4.68	4.94	5.02	5.01	5.14	4.74
Twenty Years	5.54	5.83	5.89	5.95	5.90	5.66

### RETAIL APPRECIATION RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
4th Q 2022	-4.45	-2.86	-3.23	-4.64	-2.13	-2.73
3rd Q 2022	-0.37	-0.80	-1.47	-1.31	-0.42	-0.57
One Year	1.58	-2.21	-4.41	-5.25	-0.46	-1.47
Three Years	3.83	-4.74	-6.10	-7.38	-3.89	-3.95
Five Years	3.08	-3.88	-5.24	-6.78	-3.34	-2.77
Ten Years	3.99	0.78	-0.48	-1.27	1.48	1.67
Twenty Years	2.97	2.19	1.78	0.42	2.35	2.87

### RETAIL INDEX—QUARTILE RANGE OF RETURNS

