

# RETAIL INDEX

## RETAIL IS BACK ON THE MENU

In the midst of significant real estate repricing and a new debt cost reality, the retail sector finds itself with several competitive advantages today. First, retail did not participate in last year’s tremendous cap rate compression, which has challenged other sectors. Second, retail real estate yields remain higher than debt costs, creating positive leverage currently elusive to other sectors. Last, retail fundamentals are benefitting from the survival of the fittest – spaces that emerged as winners after the recent rationalization of weaker brands and spaces driven by the impact of e-commerce and a global pandemic on brick-and-mortar stores.

In terms of cap rate advantage, the NCREIF Property Index (NPI) retail appreciation peaked in the fourth quarter of 2017 and has been largely under pressure since. Meanwhile, total NPI appreciation only peaked in the second quarter of 2022 once we began to enter a new interest rate regime. From the end of 2017 through the middle of 2022, retail appreciation fell -14.8% while total NPI appreciation increased +22.2%. As a function, we have been seeing cap rate expansion across the retail sector since 2017, but cap rate compression across other property types including industrial and multifamily.

Today the retailers who have survived the turmoil of the last several years boast all-time low vacancy rates (4.9%), all-time high rental rates (\$22psf) and virtually no new supply over the past 10 years. In fact, there is only 56 bps of retail under construction as a percentage of inventory today and that figure has remained below 1% since 2009. As a result, the retail sector outperformed in the last year, posting a 1% total return while the NPI total return fell -1.6% during that same time. When we combine record strong fundamentals with +5 years of expanded cap rates, retail real estate appears to be back on the menu for investors looking to deploy capital.

It is important to note, however, that not all retail is created equal. An impending recession will not only put further pressure on low-quality retail but will also boost relative winners. Within the retail property type, we have been closely watching changing consumer habits and demographic trends led by shoppers seeking experiential services and amenities, and aging millennials moving to the suburbs. Here, neighborhood retail centers in growth markets with service-oriented tenants are uniquely positioned to capture this demand and are justifiably experiencing strong fundamentals. It’s no surprise that the neighborhood retail subsector, with a total return of 2.6% over the last year, outperformed both the overall retail sector and the total NPI universe.

Given that sector repricing has been occurring since 2017, we don’t expect retail real estate to face the same headwinds as other property types as cap rates adjust to reflect the new reality of debt costs. It is our belief that investors able to take advantage of shifting consumer patterns and rationalization within the retail sector will emerge as winners within this property type - where strong fundamentals await them.

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### RETAIL TOTAL RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
1st Q 2023	-1.81	0.52	-0.12	-0.17	1.18	0.60
4th Q 2022	-3.50	-1.61	-2.00	-3.34	-0.79	-1.54
One Year	-1.63	0.95	-1.02	-3.02	3.38	1.38
Three Years	7.15	0.54	-0.77	-2.17	1.93	0.99
Five Years	6.71	0.57	-0.62	-2.60	1.51	1.37
Ten Years	8.34	5.42	4.14	3.36	6.34	6.13
Twenty Years	8.43	7.98	7.58	6.25	8.27	8.50

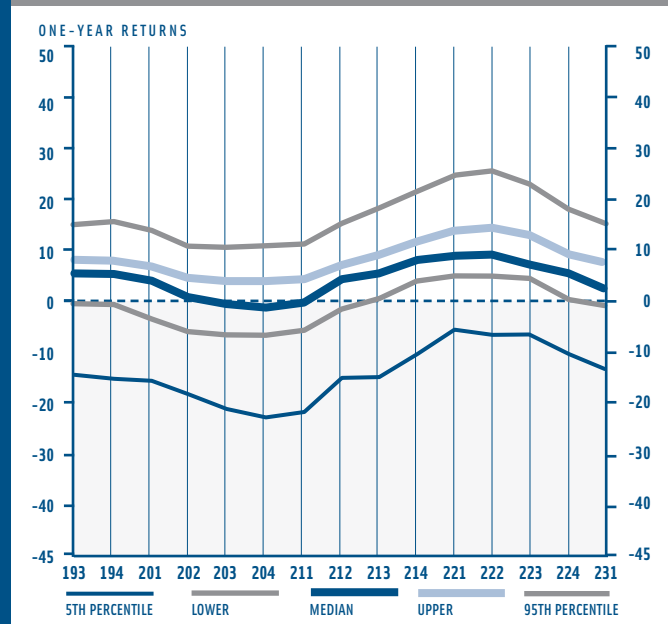
### RETAIL INCOME RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
1st Q 2023	1.01	1.30	1.29	1.28	1.41	1.24
4th Q 2022	0.95	1.25	1.23	1.30	1.33	1.19
One Year	3.92	5.07	5.03	5.02	5.39	4.92
Three Years	4.08	4.62	4.68	4.56	4.97	4.40
Five Years	4.26	4.66	4.77	4.58	4.95	4.44
Ten Years	4.64	4.92	5.00	4.97	5.12	4.72
Twenty Years	5.49	5.79	5.85	5.91	5.88	5.62

### RETAIL APPRECIATION RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
1st Q 2023	-2.82	-0.77	-1.41	-1.46	-0.23	-0.63
4th Q 2022	-4.45	-2.86	-3.23	-4.64	-2.13	-2.73
One Year	-5.39	-3.97	-5.83	-7.75	-1.93	-3.42
Three Years	2.98	-3.94	-5.27	-6.50	-2.92	-3.29
Five Years	2.37	-3.95	-5.20	-6.94	-3.31	-2.97
Ten Years	3.58	0.48	-0.82	-1.55	1.18	1.36
Twenty Years	2.83	2.11	1.67	0.33	2.30	2.78

### RETAIL INDEX—QUARTILE RANGE OF RETURNS



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