

RETAIL INDEX

CHANGING TRADE ROUTES.....WHAT DO THEY MEAN TO TODAY'S RETAIL INVESTORS?

The most recent Netflix series on Marco Polo and Midici provide great historical perspective contrasting the dynamics of evolving trade with the present....Amazon (a new marketplace/trade route). So today we have trade by land, sea, air, and the internet, and changing constantly. Savvy retailers are developing more efficient client profiling and delivery mechanisms, improving inventory and marketing management, along with a host of other improvements in the business of retailing. For owners of retail properties, this has been to the benefit of some and the despair of others.

Strong Retail Fundamentals!

Despite the magnitude of change and news rhetoric, the fundamentals for retail are surprisingly impressive if we shift our attention (and emotions) from the headlines of fading brands to the following trends:

- Per CoStar, US Retail Market Vacancy @ 4.5%, record lows and near full occupancy.
- Per NCREIF data, Rental rate growth over 5% per year for the last decade.
- Per IHL, "In total, 751 retail brands are increasing their store counts vs. 278 reducing".

Market Fear!

Contrary to these strong fundamentals, arguably some of the best in the past 30+ years, investor sentiment and debt markets remain cautious of retail. Concentrations of large department and big box stores are particularly concerning, with the chief concerns focused on:

- Cash flow disruption from co-tenancy clauses when primary tenant vacates.
- Capital expenditures to re-position the asset.
- On-going investment durability.

Combined with headline news risk, higher levels of scrutiny by most investors and especially debt providers prevail.

Contracting / Expanding Brands

Per IHL, "For Core Retail Segments, 487 chains are opening stores vs. 206 who are not." In 2017, there were nearly 14,000 new store openings compared to 10,000 closures, with 2018 forecast to have a higher net gain. Amongst the sectors, Department stores is the only one not opening more stores than closing.

So, what is creating the negative news cycle? Less than 20 retailers make up over half of the closings and those retailers are large, well-known brands with a concentration in regional malls. Recognizing differing locational dynamics, most would suggest these assets will be better served to free themselves of fading Department store retailers, although many control large portions of land in assets at a low-cost basis, which is the crux of the challenge for most. In many cases, they have a positive lease position and in many cases their interests are not in alignment with the center.

Opportunity / Go forward

Like most asset types, displacement almost always creates opportunity. Those relying primarily on previously established brands/retailers and not adapting to changing trade patterns have suffered the fate of most companies that fail to innovate, while sophisticated tenants that have invested in the technology to adapt to new trade patterns / routes have generally prospered, more often resulting in improved performance. Going forward, the improved operating efficiency of retailers and asset-level fundamentals support a more stable investment profile for the retail asset class.

Jerry Gisclair, MAI, MRICS
 US National Client Services Director
 Colliers International Valuation & Advisory Services

RETAIL TOTAL RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
1st Q 2018	1.70	0.72	-0.44	0.60	0.82	1.48
4th Q 2017	1.80	1.27	1.14	0.57	1.19	1.62
One Year	7.12	4.80	3.24	3.18	4.71	6.39
Three Years	8.72	8.44	7.08	7.34	9.13	9.25
Five Years	10.00	10.49	9.14	9.69	11.40	11.11
Ten Years	6.09	7.48	6.88	6.55	7.91	7.93
Twenty Years	9.31	10.44	10.04	9.04	10.44	11.34

RETAIL INCOME RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
1st Q 2018	1.12	1.14	1.15	1.17	1.19	1.11
4th Q 2017	1.16	1.14	1.16	1.15	1.16	1.11
One Year	4.66	4.65	4.75	4.72	4.76	4.49
Three Years	4.78	4.85	4.94	4.98	4.89	4.72
Five Years	5.03	5.18	5.23	5.37	5.30	5.01
Ten Years	5.53	5.81	5.81	5.99	5.96	5.63
Twenty Years	6.55	6.77	6.79	6.87	6.85	6.66

RETAIL APPRECIATION RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
1st Q 2018	0.58	-0.42	-1.59	-0.58	-0.37	0.37
4th Q 2017	0.63	0.13	-0.02	-0.59	0.03	0.50
One Year	2.38	0.15	-1.46	-1.49	-0.05	1.83
Three Years	3.81	3.46	2.07	2.27	4.09	4.38
Five Years	4.79	5.12	3.77	4.16	5.88	5.88
Ten Years	0.54	1.59	1.02	0.54	1.87	2.21
Twenty Years	2.64	3.50	3.10	2.06	3.41	4.46

RETAIL INDEX-QUARTILE RANGE OF RETURNS

