

RETAIL INDEX

A BROAD-BRUSH HIDES OPPORTUNITY

Retail rebounded in the first quarter with a total return of 1.74%, up from (0.43%) last quarter. For the first time in almost two years, the appreciation component for retail was not the weakest among the property types and was a small but positive 0.58%, beating out that for apartment and office property. Despite the rebound, returns for the year were lowest among the property types and included an appreciation component of (1.42%). Returns on retail have been volatile, reflecting the turmoil in the industry.

The Retail Index is concentrated geographically in the West region, which accounts for 42.5% of its capitalization, and more particularly the larger Regional/Super Regional investments in the West, which alone account for 23.6%. Returns in the West have topped the Index for all subtypes except Single Tenant for the year, and Super Regional for the quarter. The South has also done relatively well, most likely due to positive demographic trends which have significant impact for retail.

The Index also has a subtype concentration in larger properties with Regional and Super Regional properties representing 52% of the capitalization. Returns on these types were the highest among the sub-types for the quarter but lagged all others for the year, including the lowest appreciation components of (1.95%) and (2.83%) for Super Regional and Regional, respectively. Returns on these properties in the West, which is the only regional data available, remain above the sub-index for the year.

Neighborhood Centers, which are the next largest subtype by capitalization, ranked second among the subtypes for the quarter's returns, and first for the year. Returns have been higher in the West and South with the Midwest a notable laggard. The West's total return of 6.05% for the year reveals that the impact of the challenges facing the industry are not equal among the subtypes or the markets. With a greater emphasis on necessity, neighborhood centers appear to have a relative advantage.

Power Centers and Community Centers have had a negative appreciation component in each of the past four quarters. Next to mall anchors, the big box tenants typically found in these centers can be the most challenging to lease today. Despite the challenges, returns on these subtypes in the West and the South performed better than their counterparts with returns for the year of 5.14% and 6.04%, respectively.

While the turmoil in the retail industry is having an impact on retail property, not all properties and markets are feeling it equally. The metro data that is available reflects a wide variation in performance from (5.5%) for the year in Baltimore to over 7.0% in Anaheim and Austin. Bricks and mortar stores are still generating most sales and have proven to be critical to sales in a market however they are eventually consummated. This is an opportune time for savvy investors that understand the nuances and may be able to take advantage of weakness in values.

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RETAIL TOTAL RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
1st Q 2019	1.80	1.74	1.62	0.63	1.95	1.94
4th Q 2018	1.37	-0.43	-0.71	-1.49	-0.73	0.15
One Year	6.83	3.21	2.51	0.21	2.98	4.50
Three Years	7.07	5.17	4.01	3.31	5.36	6.33
Five Years	9.13	8.41	7.38	6.89	8.99	9.15
Ten Years	8.51	8.90	8.07	7.78	9.44	9.50
Twenty Years	8.93	9.99	9.60	8.59	9.83	10.89

RETAIL INCOME RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
1st Q 2019	1.11	1.16	1.17	1.12	1.24	1.11
4th Q 2018	1.11	1.16	1.20	1.13	1.20	1.12
One Year	4.55	4.67	4.80	4.60	4.88	4.49
Three Years	4.65	4.72	4.81	4.76	4.83	4.57
Five Years	4.83	4.95	5.03	5.03	5.05	4.78
Ten Years	5.46	5.69	5.72	5.86	5.85	5.50
Twenty Years	6.34	6.58	6.62	6.68	6.63	6.47

RETAIL APPRECIATION RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
1st Q 2019	0.69	0.58	0.45	-0.49	0.71	0.83
4th Q 2018	0.26	-1.60	-1.91	-2.62	-1.94	-0.97
One Year	2.20	-1.42	-2.21	-4.25	-1.83	0.01
Three Years	2.34	0.44	-0.77	-1.40	0.51	1.70
Five Years	4.14	3.35	2.26	1.80	3.80	4.22
Ten Years	2.93	3.08	2.26	1.84	3.44	3.84
Twenty Years	2.47	3.25	2.85	1.82	3.05	4.23

RETAIL INDEX—QUARTILE RANGE OF RETURNS

