

RETAIL INDEX

RETAIL DEPRECIATION ABATES; INVESTMENT PERFORMANCE HIGHLY DEPENDENT ON PROPERTY-LEVEL RISK CHARACTERISTICS

The third quarter of 2020 was marked by continued uncertainty due to the enduring threat of Covid-19, the nearing of the Presidential election, and the diminished hope of a new stimulus bill passing through Congress. As these external factors continued to impact the macro economy, we observed two noteworthy trends specific to the retail sector: a deceleration in ongoing depreciation and a specificity of performance tied to individual property risk characteristics.

Retail was quickly impacted by the first round of shutdowns, and as malls and restaurants began to close, jobless claims reached unprecedented numbers. Rent relief emerged as a pressing issue and news that several large retailers such as J.Crew and Neiman Marcus had filed for bankruptcy underscored the potential long-term impact of the pandemic. Yet as the second half of this turbulent year rolled around, consumers began to adjust. The warm summer months allowed for restaurants to expand outdoor dining and the easing of restrictions allowed stores to reopen. Consumer's desire for normalcy gave the economy a small push, and some markets saw retail sales rebound to pre-pandemic levels. Retail property returns continued to be negative; however, the -0.52% total return in Q3 was noticeably less negative than the -3.85% in Q2 and the -2.06% in Q1. Concurrent to this uptick in returns, retail fundamentals continued to be negatively impacted, evidenced by decreases in occupancy and stagnant market rent growth.

While the retail sector returns altogether improved in the third quarter, the return performance of individual investments varied based on geography, property sub-type, and the specific risk profile of the property. For instance, the Mountain division was the only geography with a positive total return, and the Pacific region, which is the largest division by market value, improved to -0.40% total return. The income returns increased to greater than 1.00% in many regions, with income return in the Northeast division notably rising from 0.80% to 1.05%.

Anecdotally, grocery anchored centers continue to be the best performers in the sector, evidenced by several leveraged transactions closing in Q3. Interestingly, lenders in those deals sought grocery anchors whose rent could cover the total expected debt service. Not surprisingly, neighborhood and community centers experienced the best improvement in quarter-over-quarter returns. Neighborhood centers posted the only positive total return at 0.33%, while Fashion/Specialty Centers had the most negative total return at -1.73%. Regional and Super Regional malls continue to draw interest given the high allocation of total market value to those subtypes. Total returns in Q3 were reported at -1.32% and -0.41% respectively.

As we begin the fourth quarter of the year with Covid-19 cases at all-time highs and further restrictions possible, we will likely continue to observe how these trends will shape what the future of retail is going to look like post-pandemic.

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RETAIL TOTAL RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
3rd Q 2020	0.74	-0.52	-1.09	-0.95	-0.33	-0.23
2nd Q 2020	-0.99	-3.85	-3.74	-5.02	-3.98	-3.58
One Year	2.00	-6.27	-7.20	-10.50	-6.31	-4.85
Three Years	5.11	-0.41	-1.65	-3.78	-0.21	1.02
Five Years	6.28	3.06	1.83	0.50	3.58	4.15
Ten Years	9.37	8.21	7.17	6.39	8.91	8.97
Twenty Years	8.30	8.94	8.56	7.19	8.85	9.85

RETAIL INCOME RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
3rd Q 2020	1.02	0.97	1.06	0.90	1.06	0.88
2nd Q 2020	1.01	0.82	0.88	0.75	0.87	0.78
One Year	4.30	4.20	4.44	3.93	4.49	3.97
Three Years	4.48	4.52	4.71	4.42	4.72	4.32
Five Years	4.58	4.64	4.80	4.63	4.78	4.47
Ten Years	5.13	5.32	5.40	5.44	5.47	5.13
Twenty Years	6.04	6.27	6.35	6.38	6.31	6.14

RETAIL APPRECIATION RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
3rd Q 2020	-0.28	-1.49	-2.15	-1.85	-1.39	-1.11
2nd Q 2020	-2.00	-4.67	-4.63	-5.77	-4.86	-4.37
One Year	-2.22	-10.15	-11.26	-14.01	-10.44	-8.56
Three Years	0.61	-4.77	-6.14	-7.93	-4.76	-3.19
Five Years	1.64	-1.52	-2.86	-3.98	-1.15	-0.31
Ten Years	4.09	2.78	1.71	0.93	3.31	3.71
Twenty Years	2.17	2.55	2.11	0.78	2.43	3.56

RETAIL INDEX—QUARTILE RANGE OF RETURNS

