

RETAIL INDEX

WELL AT LEAST IT'S NOT HOSPITALITY!

After a glimmer of hope in the third quarter of 2020, when the rate of negative appreciation improved, the sector finished the year with a quarterly return of -2.26%. The appreciation loss for the year stood at -11.17% which compares to -2.52% for the overall index. The only worse performance was hotel at -24.1%.

Total retail returns for the quarter were -1.24% as compared to the overall index at positive 1.15%. There has been much pain inflicted within the sector with more apparently in store. PNC Real Estate Market Research reports 70 major retailers filing for bankruptcy in 2020 compared to 27 in 2019. JC Penney has closed over 150 stores so far. NCREIF may have to change its definition of regional mall which includes "Two or more full-line department stores" by adding the word vacant to better reflect the market.

Regionally, total quarterly returns ranged from -0.27% in the East to -2.85% for the Midwest. For the year, the Midwest also lagged all regions with a total retail return of -11.47% while the best performance was in the West region which reported a total return of -6.57%. This compares to the total index which managed to stay positive at 1.60%.

While retail demand will strengthen with the distribution of vaccines and accompanying improved economy, the landscape may never be the same. The sector will not only have to deal with e-commerce, but also changing demographics as population shifts from traditionally strong locations such as New York City and San Francisco to more secondary cities. Other concerns confronting the sector are the future of office employment and tourism.

The lack of institutional interest in retail is evident by the number of transactions. Real Capital Analytics reports total retail transactions of only \$37.7 billion for 2020 which is a decline of -43% from the prior year. RCA also lists the top 25 transactions for all property types by dollar amount for the year and only one "retail" deal made the list. That was the Lord & Taylor building in New York City which was bought by Amazon and is being converted to office use. The former Nieman Marcus store at the Shops at Hudson Yards is heading for the same use. It will offer floor plates featuring 18 foot ceiling heights, ranging up to 164,737 square feet with abundant outdoor terraces located on each floor. Therefore, location and flexibility are key criteria for adapting to market realities.

In a surprise move, Ontario Teachers' Pension Plan liquidated its investment in shopping center REIT, Macerich. It was their largest institutional investor and a long-term joint venture partner. The year did end with Simon Properties completing the acquisition of Taubman, though the deal was finalized 18% lower than the original agreed upon price.

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RETAIL TOTAL RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
4th Q 2020	1.15	-1.24	-0.27	-2.85	-1.28	-1.36
3rd Q 2020	0.74	-0.52	-1.09	-0.95	-0.33	-0.23
One Year	1.60	-7.48	-7.69	-11.47	-7.37	-6.57
Three Years	4.89	-1.24	-2.11	-4.89	-1.02	0.02
Five Years	5.91	2.11	1.16	-0.65	2.51	3.14
Ten Years	9.00	7.57	6.65	5.67	8.13	8.37
Twenty Years	8.19	8.78	8.46	7.00	8.72	9.64

RETAIL INCOME RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
4th Q 2020	1.01	1.02	1.06	1.06	1.09	0.95
3rd Q 2020	1.02	0.97	1.06	0.90	1.06	0.88
One Year	4.20	4.03	4.28	3.84	4.32	3.77
Three Years	4.43	4.48	4.67	4.39	4.70	4.26
Five Years	4.55	4.60	4.75	4.58	4.74	4.42
Ten Years	5.06	5.25	5.33	5.37	5.40	5.05
Twenty Years	5.98	6.22	6.30	6.32	6.25	6.08

RETAIL APPRECIATION RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
4th Q 2020	0.14	-2.26	-1.33	-3.92	-2.36	-2.31
3rd Q 2020	-0.28	-1.49	-2.15	-1.85	-1.39	-1.11
One Year	-2.52	-11.17	-11.60	-14.88	-11.31	-10.05
Three Years	0.44	-5.53	-6.55	-8.97	-5.53	-4.11
Five Years	1.32	-2.40	-3.47	-5.05	-2.15	-1.23
Ten Years	3.80	2.24	1.28	0.31	2.64	3.20
Twenty Years	2.11	2.46	2.07	0.66	2.37	3.42

RETAIL INDEX—QUARTILE RANGE OF RETURNS

