

## RETAIL INDEX

### RETAIL'S RECOVERY IS WELL UNDERWAY

The pandemic amplified many of retail's pre-existing threats, creating a relatively deep hole from which the sector must emerge. However, after enduring a period of five straight quarters of negative returns, the sector finally began to show signs of a meaningful recovery in 2021 Q2 with total returns registering 0.9%, the highest mark since 2019 Q1. Appreciation returns moved closer to positive growth (-0.2%) and income returns (1.1%) continued their gradual ascent from the depths of the downturn.

Recovery signs have appeared in several facets of the sector over the last few months. According to the U.S. Census, in-store retail sales in June sat 16% above pre-pandemic levels. In addition, the number of visits to retail and recreation sites across the country has nearly fully recovered as well, according to Google mobility data. And, perhaps most notably as it pertains to retail real estate, the rate of store closure announcements by major retailers slowed substantially into 2021. Only 25 million square feet was announced for closure through the first half of 2021, representing a steep reduction in pace from the high bar set in 2020 (162 million SF).

On a regional basis, total returns in the West have been the most resilient throughout the pandemic. However, the South has experienced the strongest bounce back with total quarterly returns coming in at 1.2% in 2021 Q2. Since the start of 2020, the Midwest has had the lowest average total returns out of all regions.

One of the most significant shifts created by the pandemic occurred within markets as tourism diminished and remote working increased. Urban business district retail, a subclass that was thriving pre-pandemic, was largely left without two of its main sources of foot traffic, tourists and office workers. Meanwhile, suburban retail benefitted from an influx of new residents and its innate higher concentration of essential tenants. While suburban rent growth has outperformed throughout the pandemic, signs of an urban recovery have begun to emerge with urban business district asking rents climbing by 1.6% quarter-over-quarter in 2021 Q2, outpacing that of the suburbs by 70 basis points, according to CoStar Group.

Another sign of recovery for the overall retail market has been the return of transaction volume to pre-pandemic levels. CoStar tracked investment volume of \$17.97 billion in 2021 Q2, an amount 15% higher than the second quarter averages from 2017 to 2019. In addition, according to CoStar's Commercial Repeat Sales Index, pricing has climbed back from a 2% fall from 2020 Q1 to 2020 Q3 and now sits 2.9% above the pre-pandemic peak.

Despite positive signs, a few significant headwinds remain for the retail sector. In the near term, a shortage of retail workers may slow the recovery in leasing, and increasing cases of COVID, due to variants, may start to impact foot traffic. Also, over the long term, investors will still have to navigate an overbuilt retail market. While retail's pathway back may be challenging and uneven, many signs are pointing to the recovery being well underway.

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### RETAIL TOTAL RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
2nd Q 2021	3.59	0.90	0.90	0.98	1.15	0.73
1st Q 2021	1.72	-0.45	-0.64	-1.10	-0.80	0.00
One Year	7.37	-1.32	-1.11	-3.90	-1.26	-0.88
Three Years	5.50	-1.76	-2.31	-5.53	-1.55	-0.71
Five Years	6.13	1.17	0.35	-1.63	1.43	2.19
Ten Years	8.79	6.97	6.04	5.10	7.59	7.69
Twenty Years	8.21	8.59	8.26	6.77	8.54	9.45

### RETAIL INCOME RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
2nd Q 2021	1.06	1.14	1.15	1.19	1.27	1.05
1st Q 2021	1.04	1.06	1.11	1.08	1.15	0.97
One Year	4.19	4.25	4.45	4.30	4.64	3.91
Three Years	4.37	4.45	4.65	4.37	4.72	4.19
Five Years	4.49	4.55	4.71	4.54	4.75	4.35
Ten Years	4.96	5.14	5.23	5.26	5.31	4.92
Twenty Years	5.87	6.11	6.20	6.22	6.14	5.96

### RETAIL APPRECIATION RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
2nd Q 2021	2.54	-0.24	-0.25	-0.20	-0.11	-0.32
1st Q 2021	0.67	-1.51	-1.75	-2.18	-1.95	-0.98
One Year	3.08	-5.40	-5.38	-7.94	-5.70	-4.65
Three Years	1.09	-6.01	-6.72	-9.58	-6.05	-4.75
Five Years	1.59	-3.27	-4.21	-5.97	-3.20	-2.08
Ten Years	3.69	1.77	0.79	-0.14	2.20	2.68
Twenty Years	2.25	2.38	1.98	0.53	2.30	3.35

### RETAIL INDEX—QUARTILE RANGE OF RETURNS

