

RETAIL INDEX

RETAIL RETURNS IMPROVE AS SHOPPERS RETURN TO STORES

Returns in retail improved for the third straight quarter with the retail subindex total return up 1.55% in the third quarter of 2021. While that is the lowest total return of the major property indices and below the NCREIF Property Index total return of 5.23%, it is better than either the NAREIT All Equity REIT Index (+0.23%) or the S&P 500 Index (+0.58%) in the third quarter. Income returns for retail properties remain highest of all the real estate sectors at 1.19% in the quarter. Meanwhile, retail saw positive appreciation in retail valuations for the first time in years at +0.36% in the third quarter.

There were some small differences in retail performance by region in the third quarter. The South saw the highest total performance, up 2.21%, followed by the West, up 1.66%, with both regions seeing positive price appreciation in the quarter. On the other hand, the East region saw continued price depreciation with prices falling 0.33%, which led to total returns of just 0.87% in the quarter, while the Midwest saw prices depreciate 0.26%, which led to total returns of just 0.95%.

Neighborhood retail shopping centers once again were the retail subsector with the highest total returns, up 2.65%. After recording double-digit growth in 2020, grocery store sales reported by the U.S. Census Bureau were up another 5% in the third quarter, though most of that growth is inflation-driven. Still, shoppers continue to frequent local retail centers for groceries and other essentials even as they begin to resume prepandemic consumption habits.

Mall property returns continue to favor the larger, higher-quality centers over smaller, lower-quality peers. Super Regional retail centers saw 1.39% total returns in the third quarter while Regional retail centers were the only retail subsector that had negative performance, down 0.62%. Still, both are seeing shoppers return ahead of the holiday shopping season. Macerich, a mall REIT that primarily owns Class A malls, reported that foot traffic at the company's portfolio returned to 2019 levels mid-summer and that sales for comparable in-line tenants are up 14% over 2019. Meanwhile, Pennsylvania REIT, which owns primarily Class B and C malls, similarly reported that comparable sales for the month of September were up 17% over September 2019. While these figures are both slightly below the 20% growth in total retail sales reported by the U.S. Census Bureau between the third quarter of 2021 and the third quarter of 2019, it is relatively in line with total brick-and-mortar retail sales growth over this period after removing the impact of e-commerce growth from total sales.

Kevin Brown
Equity Analyst
Morningstar

RETAIL TOTAL RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
3rd Q 2021	5.23	1.55	0.87	0.95	2.21	1.66
2nd Q 2021	3.59	0.90	0.90	0.98	1.15	0.73
One Year	12.15	0.74	0.85	-2.06	1.26	1.01
Three Years	6.72	-1.44	-2.12	-5.16	-1.03	-0.46
Five Years	6.84	1.08	0.13	-1.74	1.46	2.12
Ten Years	8.99	6.76	5.80	4.91	7.47	7.41
Twenty Years	8.40	8.60	8.27	6.81	8.55	9.44

RETAIL INCOME RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
3rd Q 2021	1.05	1.19	1.20	1.21	1.26	1.14
2nd Q 2021	1.06	1.14	1.15	1.19	1.27	1.05
One Year	4.22	4.49	4.60	4.62	4.85	4.18
Three Years	4.35	4.47	4.66	4.40	4.75	4.22
Five Years	4.47	4.56	4.71	4.53	4.76	4.35
Ten Years	4.92	5.10	5.19	5.21	5.28	4.89
Twenty Years	5.81	6.06	6.15	6.18	6.10	5.91

RETAIL APPRECIATION RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
3rd Q 2021	4.18	0.36	-0.33	-0.26	0.95	0.52
2nd Q 2021	2.54	-0.24	-0.25	-0.20	-0.11	-0.32
One Year	7.69	-3.62	-3.62	-6.45	-3.46	-3.07
Three Years	2.29	-5.71	-6.55	-9.25	-5.58	-4.53
Five Years	2.30	-3.35	-4.42	-6.07	-3.19	-2.15
Ten Years	3.93	1.60	0.59	-0.28	2.12	2.44
Twenty Years	2.48	2.44	2.04	0.61	2.35	3.38

RETAIL INDEX—QUARTILE RANGE OF RETURNS

