RETAIL INDEX

NOT ALL RETAIL IS CREATED EQUAL

The retail sector continued its ascent from the depths of the pandemic. Retail's 2021 Q4 total return was 2.18% and marked the third straight quarter of positive returns. Challenges with rent collections seem largely in the rear-view mirror as retail's income returns have returned to pre-pandemic levels, culminating with a 4.71% 2021 annual income return that outperforms all other major property types. Despite the strong income yield and posting a second quarter of positive appreciation of 0.94%, retail continues to lag the performance of the Industrial and Apartment sectors that contributed to a Q4 total return of 6.15% for the NCREIF Property Index.

The best regional retail performance was in the South, up 3.04% for the quarter and 5.69% for the year. The outperformance was primarily driven by sunbelt states' continued population inflow and job growth trends. The Midwest followed with 2.37% for the quarter, while the West and East regions trailed with 1.97% and 1.54%, respectively. The exodus of East Coast residents from the urban-core for more affordable housing coupled with work-from-home trends leave urban retail sales depressed. However, for the first time since the onset of the pandemic, all retail regions experienced positive appreciation returns.

As the merits of daily-needs tenancy showcased themselves during the pandemic, investors renewed focus on neighborhood and community retail centers, particularly grocery-anchored. The resulting cap rate compression fueled the strongest 2021 annual sub sector performance of 8.55% and 6.63% for neighborhood and community centers respectively. In contrast, Regional Malls and Fashion/Specialty Centers with higher exposure to apparel and non-essential tenancy posted total returns of -0.23% and 3.51% over the same time period. The future of most malls remains challenged as Green Street's U.S. Mall Outlook reported that "Ecommerce penetration by 2030 is expected to reach approximately 55% for mall-based products and roughly 15% being fulfilled in-store". Higher quality Class A and B malls are anticipated to benefit from increased consumer traffic and international tourism as pandemic fears wane. However, the future of Class C and D malls remain challenged as major redevelopment efforts are cost prohibitive for many operators.

In hindsight, the pandemic appears to have been an accelerator of trends for the Retail industry, both positive and negative. While the pandemic fast tracked businesses already under pressure from e-commerce and changing consumer behaviors towards store closures, many retailers did find ways to adapt and expand business models to accommodate omnichannel offerings. Consumers concurrently gained more comfort with click-and-collect, curbside pick-up, and Instacart/Doordash options, making brick-and-mortar's pivotal role in 1-mile fulfillment more obvious. PNC's January 2022 Retailer Newsletter reported over 350 store openings in January 2022 compared to 45 store closings, a sign that retail may be at an inflection point with strong operators in expansion mode. However, most store openings consist of smaller format restaurants or shop space tenants that will disproportionately benefit strip center categories including neighborhood, community, and power centers rather than regional malls. In summary, not all retail is created equal.

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RETAIL TOTAL RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
4th Q 2021	6.15	2.18	1.54	2.37	3.04	1.97
3rd Q 2021	5.23	1.55	0.87	0.95	2.21	1.66
One Year	17.70	4.22	2.68	3.21	5.69	4.42
Three Years	8.37	-0.59	-1.38	-3.94	0.21	0.14
Five Years	7.75	1.19	0.17	-1.59	1.68	2.18
Ten Years	9.32	6.63	5.60	4.81	7.39	7.31
Twenty Years	8.69	8.65	8.33	6.94	8.62	9.42

RETAIL INCOME RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
4th Q 2021	1.03	1.24	1.24	1.19	1.33	1.19
3rd Q 2021	1.05	1.19	1.20	1.21	1.26	1.14
One Year	4.24	4.71	4.79	4.74	5.11	4.43
Three Years	4.32	4.50	4.68	4.42	4.79	4.24
Five Years	4.44	4.57	4.72	4.53	4.79	4.36
Ten Years	4.88	5.06	5.15	5.16	5.24	4.85
Twenty Years	5.76	6.01	6.10	6.13	6.06	5.86

RETAIL APPRECIATION RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
4th Q 2021	5.12	0.94	0.29	1.19	1.71	0.78
3rd Q 2021	4.18	0.36	-0.33	-0.26	0.95	0.52
One Year	13.05	-0.47	-2.04	-1.48	0.56	-0.01
Three Years	3.92	-4.91	-5.85	-8.08	-4.42	-3.97
Five Years	3.20	-3.26	-4.40	-5.92	-3.01	-2.10
Ten Years	4.29	1.52	0.44	-0.33	2.08	2.38
Twenty Years	2.81	2.54	2.14	0.78	2.45	3.42

RETAIL INDEX—QUARTILE RANGE OF RETURNS