

# RETAIL INDEX

## 2Q22 RETAIL: WHAT A DIFFERENCE A YEAR MAKES!

As the coronavirus heavily impacted commerce, we witnessed consumers quickly shift their shopping patterns to conform to a new world in 2020. At the peak of the lockdown, almost 62% of physical shops in the U.S. were closed, amounting to nearly 5 billion square feet of idled space.

In early 2021, we observed a definitive transition due to a surplus of available retail square footage and a considerable shift in consumer behaviors as shoppers re-engaged in in-person shopping and Bricks & Mortar retailers regained market share.

The desire to shop and socialize in person was evident as online sales growth retreated and Offline (Bricks & Mortar) sales rebounded. In 2021, store closings hit an all-time low, while store openings outpaced closings for the first time since 2014.

### Ecommerce / Offline Pattern Shift

Excluding items not normally purchased online (restaurants, bars, automobile dealers, gas stations and fuel), 2021 retail sales growth was evenly distributed amongst Ecommerce and Offline retailers. What's significant is preceding 2021 Ecommerce Sales Growth (16%/year) outpaced Offline Sales Growth (2.35%/year) by nearly 7 times. However, Offline sales spiked by 14% in 2021 as in-person shoppers returned.

### Retail Leasing Surge

As a result, retail leasing activity accelerated to its highest levels in four years in 2021, with more than 240 million square feet of space leased, a 30% increase from 2020.

Most new retail space delivered in 2021 consisted of single-tenant properties, with nearly 75% pre-leased. Leasing resurgence was driven by growth for smaller spaces, as the average footprint leased fell to just over 3,000 square feet. This reflects the shift of many digitally native brands to physical locations to expand reach, proving that wider Omnichannel approaches are critical to growth. The entry of more digitally native brands is anticipated to create a growing pool of Offline retail tenants.

Positive in-store sales growth from recovering foot traffic drove the retail sector's positive momentum through 1Q22, with retailers signing nearly 20,000 leases totaling 65 million square feet in the quarter, reducing the national vacancy to 4.5%. The strong recovery in leasing activity together with limited new construction and a sharp decline in store closures has improved overall retail sector performance, yielding average retail rent increases of 5.5% YOY. The 1Q22 NCREIF Property Index mirrors this trend, with accelerating retail rental rate growth emerging in 2Q21 and widely dispersed nationwide.

Looking ahead through 2022, suburban retail rents are expected to grow 4.1%, while urban retail rents are expected to increase by 3.8%. This above-average growth is driven by higher inflation expectations, with forecasted CPI of 4.4% for the year.

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RETAIL TOTAL RETURNS						
	Total NPI	Total Retail	East	Midwest	South	West
1st Q 2022	5.33	2.26	1.24	2.37	2.60	2.56
4th Q 2021	6.15	2.18	1.54	2.37	3.04	1.97
One Year	21.87	7.06	4.62	6.82	9.30	7.10
Three Years	9.60	-0.42	-1.51	-3.39	0.42	0.35
Five Years	8.54	1.33	0.22	-1.39	1.77	2.35
Ten Years	9.61	6.57	5.49	4.74	7.33	7.27
Twenty Years	8.89	8.67	8.34	7.00	8.64	9.41

RETAIL INCOME RETURNS						
	Total NPI	Total Retail	East	Midwest	South	West
1st Q 2022	0.99	1.22	1.16	1.16	1.33	1.20
4th Q 2021	1.03	1.24	1.24	1.19	1.33	1.19
One Year	4.18	4.88	4.85	4.82	5.30	4.66
Three Years	4.28	4.52	4.68	4.43	4.83	4.27
Five Years	4.41	4.58	4.72	4.52	4.82	4.36
Ten Years	4.83	5.03	5.11	5.12	5.21	4.82
Twenty Years	5.70	5.97	6.04	6.09	6.02	5.81

RETAIL APPRECIATION RETURNS						
	Total NPI	Total Retail	East	Midwest	South	West
1st Q 2022	4.34	1.04	0.07	1.21	1.27	1.37
4th Q 2021	5.12	0.94	0.29	1.19	1.71	0.78
One Year	17.16	2.10	-0.23	1.93	3.86	2.36
Three Years	5.16	-4.77	-5.97	-7.56	-4.25	-3.80
Five Years	4.00	-3.14	-4.34	-5.71	-2.94	-1.94
Ten Years	4.61	1.50	0.37	-0.36	2.04	2.38
Twenty Years	3.06	2.60	2.21	0.88	2.51	3.46

