

RETAIL INDEX

“BRICK-AND-MORTAR” STILL MATTERS

Even in pandemic-disrupted times, physical retail – in particular, open-air locations that are highly community- and convenience-driven -- has held its own as a real estate asset class. Indeed, there is a powerful case to be made today for the value and prospects of high-quality, open-air “lifestyle” and “power” retail assets.

Lifestyle centers were conceived as a modern-day, open-air interpretation of the traditional shopping mall. Based in suburban communities, lifestyle centers are characterized by both upscale, national chains and small-format specialty and necessity-based retail, and trendy food and beverage concepts.

Power centers are outdoor retail shopping centers catering to a large trade area and generally including three or more “big box” stores serving day-to-day necessities as well as discount and bulk purchases.

These properties – typically incorporating other uses, including residential, office, co-working and/or hotel – reflect consumers’ desire to shop in centers conveniently addressing daily needs as well as offering an engaging “live, work, shop, play” environment. They often have “Main Street-like” design features and experiential amenities like unique dining and entertainment venues, while also providing a traditional shopping experience.

A confluence of factors – including the COVID-19 pandemic – has helped to build the rationale for multi-use, open-air retail properties and their appeal for institutional investors. Among the most powerful has been the existential threat to department stores, the long-standing backbone of traditional malls, by online shopping providers, notably Amazon. The trend, while initially motivating many large investors to reduce their retail allocation, has also encouraged developers to “densify” mall properties with other, non-retail uses with proven economic value.

COVID has been a huge catalyst for change as well, offering strong impetus for the test of alternative retail concepts like open-air, neighborhood centers. Such centers offer an attractive showcase for those retailers who survived COVID’s Darwinian challenges and now are well positioned to compete.

Here are other, key fundamentals:

- **Mispricing Opportunities:** Properties can be available at very favorable prices and rents, and then repositioned and reactivated through improvements such as green space; programming initiatives such as events and fairs; cutting-edge retail tenants, and best-in-class food and beverage concepts, all with a stronger rental base.
- **Market-Driven Asset Selection:** Many attractive assets are located in top performing markets promising strong rental growth, visitor traffic and occupancy tailwinds.
- **Retailer Preference for Open-Air Format:** According to commercial real estate information firm Costar, nearly 42% of all retail leasing activity recorded this year has flowed into open-air centers, vs. 39.5% in 2021. By contrast, leasing activity in the enclosed mall sector has declined further in 2022, accounting for just 4.3% of total leasing year-to-date.
- **High Barriers to Entry:** Major lifestyle centers are generally located in high-barrier-to-entry markets and capture dominating consumer demand, blunting competition from other retailers.
- **Economic Resilience:** Multiple uses diversify revenue streams and support captive audiences of shoppers with varying needs – yielding economic resiliency and reduced asset volatility.

It seems undeniable: Open-air retail is poised to deliver value for developers and investors alike, for years to come.

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RETAIL TOTAL RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
2nd Q 2022	3.23	1.68	1.41	0.65	2.14	1.75
1st Q 2022	5.33	2.26	1.24	2.37	2.60	2.56
One Year	21.45	7.89	5.15	6.47	10.38	8.19
Three Years	10.22	0.17	-0.83	-2.67	0.96	0.87
Five Years	8.86	1.36	0.22	-1.43	1.93	2.33
Ten Years	9.67	6.43	5.25	4.64	7.23	7.13
Twenty Years	8.98	8.57	8.27	6.90	8.64	9.23

RETAIL INCOME RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
2nd Q 2022	0.97	1.25	1.22	1.18	1.29	1.25
1st Q 2022	0.99	1.22	1.16	1.16	1.33	1.20
One Year	4.10	4.99	4.93	4.81	5.32	4.86
Three Years	4.23	4.55	4.69	4.44	4.87	4.32
Five Years	4.37	4.60	4.72	4.53	4.85	4.39
Ten Years	4.78	5.00	5.08	5.08	5.19	4.80
Twenty Years	5.65	5.92	6.00	6.04	5.98	5.77

RETAIL APPRECIATION RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
2nd Q 2022	2.26	0.43	0.19	-0.52	0.85	0.50
1st Q 2022	4.34	1.04	0.07	1.21	1.27	1.37
One Year	16.85	2.79	0.22	1.60	4.86	3.21
Three Years	5.81	-4.23	-5.33	-6.88	-3.76	-3.34
Five Years	4.35	-3.13	-4.35	-5.76	-2.81	-1.99
Ten Years	4.72	1.39	0.17	-0.41	1.98	2.26
Twenty Years	3.20	2.55	2.19	0.83	2.55	3.33

RETAIL INDEX—QUARTILE RANGE OF RETURNS

