RETAIL INDEX

RETAIL CONTINUES TO LAG, BUT COULD IT BE TURNING THE CORNER?

The total return for the second quarter of 2018 came in at 1.32% for retail, lagging all other property types as the overall index returned 1.81%. What a difference from just three years ago when retail enjoyed a decade long period of outperforming all categories. Still, it was the best quarter in the last year. The one-year return of 4.60% verses a total index return of 7.19%, continued a multi-year downward trend in total return for retail.

Appreciation turned modestly positive for the quarter at 0.17%, but for the year was down -0.05%. The only worse performing sector was hotels at -1.79%. Regionally, total retail quarterly returns ranged from 1.13% in the South Region to 1.45% in the West. The super-regional mall category reported a modest appreciation decline of -0.21% for the past year. There has not been a "trophy" transaction in over a year and market participants are eagerly awaiting some transaction activity to test the direction of this asset class.

Occupancy rates decreased slightly nationally for the quarter according to ICSC data, going from 93.2% to 92.80%. Interestingly enough, categories showing improvement include fashion, regional and super-regional malls. Is this a harbinger that the worst may be over?

Not surprisingly, new construction was down 5.5% for June according to FW Dodge, running at an annualized rate of 76msf. Measured as a percent of total stock, current starts are at 0.6%, which is less than two-thirds the historical average. The only markets with significant new construction relative to inventory include Baltimore (1.8%) and Dallas (1.4%).

While store closings continue to capture the headlines, new concepts keep coming out. Home Depot recently bought high-end linen merchant, The Company Store, and plans to expand into home décor. JC Penney is also introducing new baby and childcare products to take advantage of the closing of Babies "R" Us.

High-street retail appears to have stabilized in New York City after a tumultuous two years of free fall rents and increased vacancies. The most recent REBNY retail rental survey reveals 9 of 17 Manhattan submarkets recording decreases in asking rent, however, the decreases are minimal overall.

Retail sales, the engine that drives the economics of shopping centers, increased 5.6% year over year for the week ending August 4th, according to Redbook. So, with possible increasing or at least stabilized trends for retail sales, occupancy and limited construction, maybe retail has turned the corner.

Raymond T Cirz, MAI, CRE, FRICS
Market Leader – New York TriState Region
Senior Vice President |Valuation& Advisory Newmark Knight Frank

RETAIL TOTAL RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
2nd Q 2018	1.81	1.32	1.31	1.32	1.13	1.45
1st Q 2018	1.70	0.72	-0.44	0.60	0.82	1.48
One Year	7.19	4.60	3.11	3.65	4.48	5.94
Three Years	8.25	7.85	6.51	6.88	8.50	8.64
Five Years	9.77	10.09	8.79	9.18	10.96	10.71
Ten Years	6.22	7.54	6.93	6.67	7.96	8.00
Twenty Years	9.19	10.33	9.96	8.96	10.31	11.17

RETAIL INCOME RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
2nd Q 2018	1.14	1.15	1.17	1.14	1.18	1.12
1st Q 2018	1.12	1.14	1.15	1.17	1.19	1.11
One Year	4.64	4.65	4.73	4.71	4.77	4.51
Three Years	4.74	4.81	4.90	4.92	4.86	4.67
Five Years	4.98	5.12	5.18	5.26	5.23	4.95
Ten Years	5.51	5.79	5.79	5.96	5.93	5.60
Twenty Years	6.50	6.72	6.74	6.82	6.79	6.62

RETAIL APPRECIATION RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
2nd Q 2018	0.67	0.17	0.14	0.17	-0.06	0.33
1st Q 2018	0.58	-0.42	-1.59	-0.58	-0.37	0.37
One Year	2.46	-0.05	-1.56	-1.02	-0.28	1.39
Three Years	3.40	2.93	1.55	1.89	3.51	3.83
Five Years	4.63	4.79	3.48	3.78	5.52	5.55
Ten Years	0.68	1.68	1.09	0.67	1.94	2.30
Twenty Years	2.57	3.43	3.07	2.04	3.35	4.34

RETAIL INDEX—QUARTILE RANGE OF RETURNS