

RETAIL INDEX

OPPORTUNITY KNOCKS

In the third quarter of 2018 retail's total return came in at 0.56%, behind the overall property index's 1.56%, and lagging all other property types for a third straight quarter. Valuation led the narrative for retail as it is the only property type that experienced negative appreciation returns in Q3. The negative appreciation return of -0.57% was largely driven by the Super-Regional and Regional Mall subtypes, which declined -2.15% and -0.88%, respectively.

The year to date total return for retail of 2.62% tells the same story as it had the lowest total return of all the property types and also trailed the overall property index, which posted a total return of 5.27%. While income returns for retail were middle of the pack at 3.46%, appreciation is negative year to date, declining by -0.82%. The year to date negative appreciation was also driven by Super-Regional and Regional Mall subtypes, which are down -1.08% and -3.51%, respectively. Within retail, the Neighborhood Shopping Center leads all retail subtypes with a total return of 4.47% year to date, composed of a positive appreciation return of 0.73%, and income return of 3.72%.

Retail's performance may be hardly a surprise if you have been paying attention to industry headlines, which have been dominated with news of store closures as the brands and concepts of the past face an existential challenge. Retailers that fail to adapt to the consumer's evolving shopping habits or positively differentiate have found themselves at this familiar crossroad. Among the most notable (and recent) is Sears, whose quest to survive has dragged on for longer than some would have predicted and may soon reach its final destination.

For certain landlords with high-quality real estate holdings, the old mantra "bad news is good news" certainly rings true as beneficiaries have an opportunity to unlock value by taking advantage of underutilized real estate. Those with well-located real estate stand to benefit from redevelopment and re-merchandising to reinvigorate the shopping experience and cater to today's consumer.

Though store closings and retailer bankruptcies have dominated media headlines, net new retail store openings remain positive, with over 3,500 U.S. net openings estimated in 2018 per IHL. New and evolving retailers continue to drive demand for high-quality space, including TJX, Ross, OrangeTheory Fitness, Ulta, CVS, and Publix, who all continue to open new locations. The sizable brick and mortar investment by these winning retailers, along with Amazon's through Whole Foods, Amazon Go and Amazon 4-Star demonstrate that there is value that remains in a physical presence close to the consumer, when done correctly.

Jamaal Grier
 Manager, JV Portfolio Management
 Regency Centers

RETAIL TOTAL RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
3rd Q 2018	1.67	0.56	0.28	-0.22	0.63	0.90
2nd Q 2018	1.81	1.32	1.31	1.32	1.13	1.45
One Year	7.16	3.93	2.29	2.27	3.81	5.56
Three Years	7.75	6.95	5.59	5.59	7.60	7.86
Five Years	9.57	9.62	8.36	8.42	10.49	10.31
Ten Years	6.42	7.58	6.98	6.56	8.02	8.06
Twenty Years	9.09	10.21	9.84	8.84	10.11	11.09

RETAIL INCOME RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
3rd Q 2018	1.11	1.13	1.18	1.13	1.17	1.07
2nd Q 2018	1.14	1.15	1.17	1.14	1.18	1.12
One Year	4.62	4.64	4.74	4.68	4.78	4.48
Three Years	4.70	4.77	4.86	4.85	4.83	4.63
Five Years	4.92	5.06	5.13	5.17	5.16	4.89
Ten Years	5.50	5.76	5.77	5.93	5.91	5.57
Twenty Years	6.44	6.67	6.70	6.78	6.74	6.57

RETAIL APPRECIATION RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
3rd Q 2018	0.56	-0.57	-0.90	-1.35	-0.54	-0.18
2nd Q 2018	0.67	0.17	0.14	0.17	-0.06	0.33
One Year	2.46	-0.69	-2.36	-2.33	-0.93	1.04
Three Years	2.95	2.11	0.71	0.71	2.67	3.12
Five Years	4.49	4.40	3.12	3.13	5.14	5.23
Ten Years	0.88	1.75	1.16	0.61	2.02	2.38
Twenty Years	2.53	3.37	3.00	1.96	3.21	4.31

RETAIL INDEX—QUARTILE RANGE OF RETURNS

