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RETAIL SECTOR'S STRUGGLES CONTINUE

National unemployment is at all-time lows and the economy continues to show favorable, though slowing, trends. In spite of a general positive environment the past few years, the retail sector has struggled. Announced store closings for 2019 exceed 9,100, following record closings each of the past 2 years. Total returns for the Retail category have been at the bottom of the Property Type Subindexes for each of the last 5 quarters, with the exception of 2019/1Q when Retail performed at the #2 spot in an apparent aberration to recent trends. The weak trailing 1-year and 2019/3Q total returns of 1.41% and 0.22%, respectively, are largely a function of continued value declines (appreciation) of -3.2% and -0.96% for these respective periods. Conversely, quarterly income returns have been stable, averaging 1.16% the past 4 quarters.

Regionally, the East and Midwest experienced the highest value losses in 2019/3Q at -1.34% and -1.47%, continuing a trend over the past 5 quarters. Income returns actually increased to 1.32% for the East, indicating that cap rate increases were the primary driver for value declines. Looking at the Regional Divisions, the greatest total returns were from the Southwest and Pacific, at 1.06% and 0.44%. The Pacific Division had the lowest income return at 1.09%, while the Northeast and West North Central had the highest returns at 1.44% and 1.36%, respectively.

Retail Property Subtypes experienced a wide divergence in returns, as those sectors were impacted by store closings. Neighborhood Retail was the strongest, though still weaker than all other Property Subtypes, at a total return in 2019/3Q of 1.01%. The West North Central Division led this Subtype at a total return of 2.0%.

Retail-Single Tenant was by far the worst performer of all Property Subtypes for 2019/3Q with a total return of -3.44%, appreciation of -4.26%, and an income return of 0.82%. The trailing 1-Year performance was -1.94%, 5.24%, and 3.44%. Walgreens and CVS have collectively announced 268 store closings as online and competition from larger discount store formats take market share.

The Regional Subtype and Power Centers have exposure to challenged larger tenant stores that has resulted in downward appreciation performance. Sears and Kmart announced 2019 closings of another 335 stores continues a multi-decade period of decline, while closings have slowed for Macy's, JC Penney and other traditional department stores as they adapt to multichannel strategies. Regional Subtypes exhibited appreciation of -1.29% and a total return of -0.19%. Trailing 1-Year performance for total returns were -0.28%, and for appreciation -4.76%. Power Center appreciation for 2019/3Q was -0.96%, and total return of 0.40%, while trailing 1-Year performance for total returns was 1.31%, with appreciation of -4.04%.

Retail-Fashion/Specialty Centers continued to feel the pressure of online shopping offering like merchandise, as observed by -1.73% appreciation and a -0.35% total return in 2019/3Q. The East Region had the greatest negative influence on this Property Subtype with appreciation of -3.62% and total returns of -1.32%.

Retail will continue to experience structural change, as a supply of 23.5 square feet per capita is not sustainable.

Del H. Kendall, MAI, CRE, FRICS
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RETAIL TOTAL RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
3rd Q 2019	1.41	0.22	-0.02	-0.28	0.46	0.34
2nd Q 2019	1.51	-0.11	-0.66	-1.55	0.50	0.19
One Year	6.24	1.41	0.21	-2.68	2.17	2.63
Three Years	6.76	3.78	2.45	1.47	4.26	4.94
Five Years	8.57	7.26	6.06	5.31	8.00	8.11
Ten Years	9.77	9.60	8.66	8.07	10.35	10.27
Twenty Years	8.80	9.75	9.35	8.22	9.68	10.67

RETAIL INCOME RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
3rd Q 2019	1.11	1.18	1.32	1.18	1.20	1.10
2nd Q 2019	1.12	1.14	1.17	1.14	1.17	1.10
One Year	4.53	4.72	4.96	4.66	4.91	4.51
Three Years	4.60	4.70	4.84	4.71	4.83	4.53
Five Years	4.75	4.86	4.98	4.93	4.96	4.71
Ten Years	5.37	5.61	5.65	5.75	5.75	5.42
Twenty Years	6.25	6.48	6.53	6.60	6.53	6.36

RETAIL APPRECIATION RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
3rd Q 2019	0.30	-0.96	-1.34	-1.47	-0.74	-0.76
2nd Q 2019	0.38	-1.25	-1.84	-2.69	-0.67	-0.91
One Year	1.65	-3.20	-4.58	-7.09	-2.64	-1.81
Three Years	2.09	-0.88	-2.30	-3.13	-0.55	0.39
Five Years	3.69	2.31	1.04	0.37	2.94	3.29
Ten Years	4.23	3.83	2.88	2.22	4.41	4.67
Twenty Years	2.44	3.12	2.69	1.54	3.00	4.11

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