

RETAIL INDEX

RETAIL: A BIFURCATED MARKET

2017 was a year full of headlines proclaiming the death of retail. From store closures to bankruptcies to the continued growth of e-commerce, it was hard to find positive news about retail in the press. Notwithstanding this barrage of bad news, retail occupancy and rental rates both improved during the year according to CoStar's National Retail Advisory year-end report. It showed that vacancy decreased by 20 basis points, while rents increased by 5.5%. This overall improvement belies a bifurcated market with better positioned and managed properties significantly outperforming other retail properties that are poorly located or undermanaged.

For the fourth quarter of 2017, the retail sub-index of the NCREIF Property Index achieved a total return of 1.27%, 53 basis points lower than the Index as a whole, and besting only the volatile hotel sub-index. It did represent an uptick of 7 basis points from the prior quarter and denotes the first quarterly increase in two years as the appreciation return arrested its slide. For 2017 as a whole, the retail total return was down more than 37% from 2016, the most of any sub-index, driven by a significant slowdown in appreciation return.

Neighborhood centers that feature grocery/drug anchors have proven to be a relative safe haven within the retail sector due to their internet resistant tenant mix of food and services. This subtype had the best performance during both the quarter and for all of 2017, posting total returns of 1.91% and 6.53%, respectively. These returns were largely driven by this subtype's consistent income return. The single tenant subtype, on the other hand, significantly underperformed all other subtypes with just a 0.59% and 3.03% total return for the quarter and 2017, respectively, driven by declining values as investor demand cooled for such product.

On a regional basis, the West and South continue to outperform the East and Midwest on both a quarterly and annual basis. The regional disparities are almost all driven by variances in the appreciation returns. While the West achieved a 0.50% appreciation return in the fourth quarter, the Midwest lost 0.59% in appreciation during quarter. A similar dynamic prevailed for all of 2017 with a 276 basis point spread between the two regions. The West's superior appreciation return allowed it to overcome an approximately 20 basis point income return deficit on an annual basis relative to the other regions.

Retail will continue to undergo changes at an ever-increasing pace as technology, demographics and shopping preferences force the market to innovate and adapt. Malls continue to reduce exposure to full priced apparel and increase exposure to food and entertainment. As department stores give back space, more significant redevelopments will occur. Amazon's acquisition of Whole Foods reaffirms brick and mortar's importance and will spur grocery anchors at neighborhood and community centers to improve their performance. 2018 will likely be another noisy year in retail, with continued bifurcation in performance similar to 2017.

Daniel J. Radek
Co-President
First Washington Realty, Inc.

RETAIL TOTAL RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
4th Q 2017	1.80	1.27	1.14	0.57	1.19	1.62
3rd Q 2017	1.70	1.20	1.09	1.12	1.27	1.26
One Year	6.96	5.67	4.70	3.91	6.04	6.60
Three Years	9.38	9.93	8.58	8.51	11.09	10.54
Five Years	10.19	11.14	9.98	10.19	12.15	11.62
Ten Years	6.08	7.55	7.09	6.59	7.98	7.94
Twenty Years	9.44	10.56	10.20	9.11	10.63	11.42

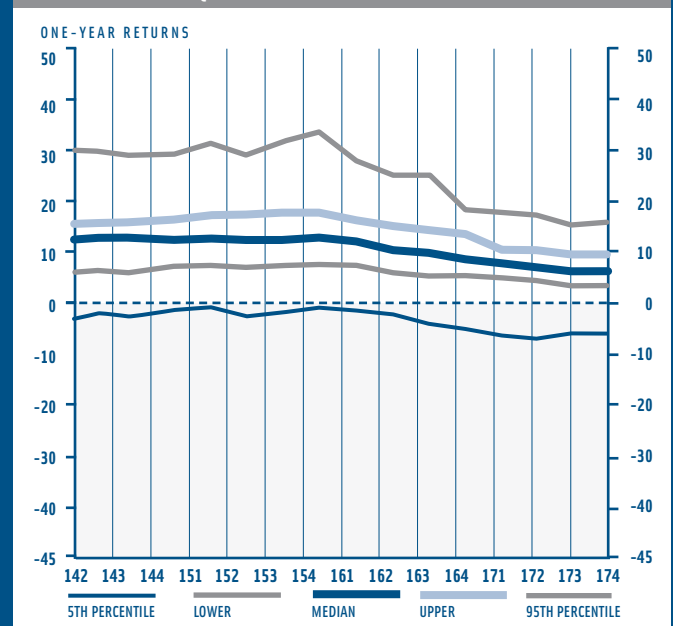
RETAIL INCOME RETURNS

	Total NPI	Total Retail	East	Midwest	South	West
4th Q 2017	1.16	1.14	1.16	1.15	1.16	1.11
3rd Q 2017	1.14	1.14	1.17	1.16	1.16	1.09
One Year	4.68	4.69	4.79	4.73	4.77	4.57
Three Years	4.82	4.91	4.99	5.04	4.96	4.78
Five Years	5.08	5.25	5.29	5.46	5.37	5.07
Ten Years	5.54	5.84	5.84	6.01	5.98	5.66
Twenty Years	6.60	6.82	6.84	6.92	6.91	6.71

RETAIL APPRECIATION RETURNS

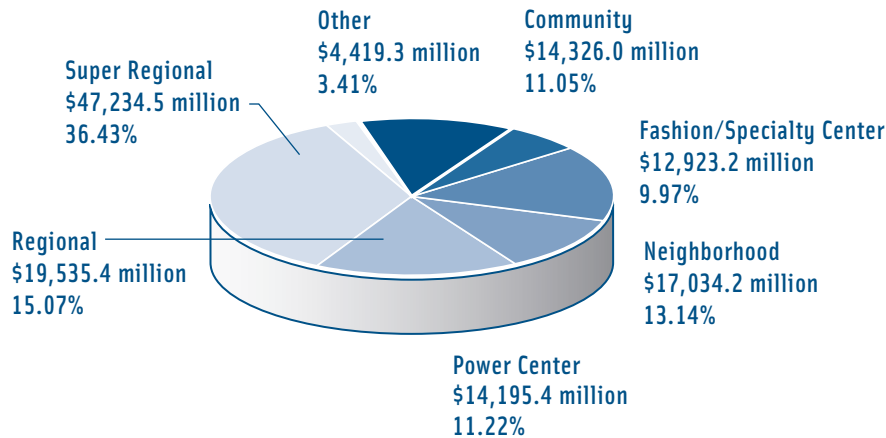
	Total NPI	Total Retail	East	Midwest	South	West
4th Q 2017	0.63	0.13	-0.02	-0.59	0.03	0.50
3rd Q 2017	0.56	0.07	-0.08	-0.04	0.11	0.17
One Year	2.20	0.95	-0.08	-0.79	1.23	1.97
Three Years	4.41	4.84	3.47	3.35	5.92	5.57
Five Years	4.92	5.67	4.52	4.56	6.53	6.32
Ten Years	0.52	1.64	1.20	0.55	1.90	2.19
Twenty Years	2.71	3.56	3.20	2.08	3.53	4.48

RETAIL INDEX—QUARTILE RANGE OF RETURNS



RETAIL SUB-TYPES INDEX

TOTAL RETAIL



Retail Properties	1,137
Community Properties	230
Fashion/Specialty Center Properties	86
Neighborhood Properties	436
Power Center Properties	169
Regional Properties	62
Super Regional Properties	59
Other Properties	95
Total Market Value	\$129,668.0M

COMMUNITY TOTAL RETURNS

	Total NPI	Total Retail	Total Community
4th Q 2017	1.80	1.27	1.01
3rd Q 2017	1.70	1.20	1.56
One Year	6.96	5.67	6.12
Three Years	9.38	9.93	9.05
Five Years	10.19	11.14	10.10
Ten Years	6.08	7.55	6.48
Twenty Years	9.44	10.56	10.02

COMMUNITY INCOME RETURNS

	Total NPI	Total Retail	Total Community
4th Q 2017	1.16	1.14	1.26
3rd Q 2017	1.14	1.14	1.28
One Year	4.68	4.69	5.27
Three Years	4.82	4.91	5.43
Five Years	5.08	5.25	5.80
Ten Years	5.54	5.84	6.17
Twenty Years	6.60	6.82	7.16

COMMUNITY APPRECIATION RETURNS

	Total NPI	Total Retail	Total Community
4th Q 2017	0.63	0.13	-0.25
3rd Q 2017	0.56	0.07	0.28
One Year	2.20	0.95	0.81
Three Years	4.41	4.84	3.48
Five Years	4.92	5.67	4.12
Ten Years	0.52	1.64	0.30
Twenty Years	2.71	3.56	2.71

NEIGHBORHOOD TOTAL RETURNS

	Total NPI	Total Retail	Total Neighborhood
4th Q 2017	1.80	1.27	1.91
3rd Q 2017	1.70	1.20	1.28
One Year	6.96	5.67	6.53
Three Years	9.38	9.93	10.18
Five Years	10.19	11.14	11.09
Ten Years	6.08	7.55	6.89
Twenty Years	9.44	10.56	10.60

NEIGHBORHOOD INCOME RETURNS

	Total NPI	Total Retail	Total Neighborhood
4th Q 2017	1.16	1.14	1.22
3rd Q 2017	1.14	1.14	1.22
One Year	4.68	4.69	4.99
Three Years	4.82	4.91	5.30
Five Years	5.08	5.25	5.60
Ten Years	5.54	5.84	6.09
Twenty Years	6.60	6.82	7.18

NEIGHBORHOOD APPRECIATION RETURNS

	Total NPI	Total Retail	Total Neighborhood
4th Q 2017	0.63	0.13	0.69
3rd Q 2017	0.56	0.07	0.06
One Year	2.20	0.95	1.48
Three Years	4.41	4.84	4.69
Five Years	4.92	5.67	5.28
Ten Years	0.52	1.64	0.76
Twenty Years	2.71	3.56	3.25

REGIONAL TOTAL RETURNS

	Total NPI	Total Retail	Total Regional
4th Q 2017	1.80	1.27	1.21
3rd Q 2017	1.70	1.20	1.04
One Year	6.96	5.67	4.44
Three Years	9.38	9.93	10.01
Five Years	10.19	11.14	11.40
Ten Years	6.08	7.55	7.87
Twenty Years	9.44	10.56	10.94

REGIONAL INCOME RETURNS

	Total NPI	Total Retail	Total Regional
4th Q 2017	1.16	1.14	1.15
3rd Q 2017	1.14	1.14	1.14
One Year	4.68	4.69	4.70
Three Years	4.82	4.91	4.83
Five Years	5.08	5.25	5.20
Ten Years	5.54	5.84	5.74
Twenty Years	6.60	6.82	6.67

REGIONAL APPRECIATION RETURNS

	Total NPI	Total Retail	Total Regional
4th Q 2017	0.63	0.13	0.06
3rd Q 2017	0.56	0.07	-0.10
One Year	2.20	0.95	-0.26
Three Years	4.41	4.84	5.00
Five Years	4.92	5.67	5.97
Ten Years	0.52	1.64	2.05
Twenty Years	2.71	3.56	4.07

SUPER REGIONAL TOTAL RETURNS

	Total NPI	Total Retail	Total Super Regional
4th Q 2017	1.80	1.27	1.07
3rd Q 2017	1.70	1.20	1.29
One Year	6.96	5.67	5.85
Three Years	9.38	9.93	10.90
Five Years	10.19	11.14	12.40
Ten Years	6.08	7.55	9.45
Twenty Years	9.44	10.56	11.53

SUPER REGIONAL INCOME RETURNS

	Total NPI	Total Retail	Total Super Regional
4th Q 2017	1.16	1.14	1.07
3rd Q 2017	1.14	1.14	1.04
One Year	4.68	4.69	4.34
Three Years	4.82	4.91	4.55
Five Years	5.08	5.25	4.89
Ten Years	5.54	5.84	5.57
Twenty Years	6.60	6.82	6.57

SUPER REGIONAL APPRECIATION RETURNS

	Total NPI	Total Retail	Total Super Regional
4th Q 2017	0.63	0.13	0.00
3rd Q 2017	0.56	0.07	0.26
One Year	2.20	0.95	1.47
Three Years	4.41	4.84	6.15
Five Years	4.92	5.67	7.25
Ten Years	0.52	1.64	3.72
Twenty Years	2.71	3.56	4.73