

National Retail Overview

AUGUST 2019

OVERVIEW

The retail sector is recording mixed performance. The economy has been on an extended upward trajectory, with labor markets expanding and the unemployment rate near 50-year lows. While consumers are in a strong position, the nature of how we buy things is impacting retailers and retail real estate.

Consumer spending is, of course, the primary driver of the retail real estate market. The latest retail sales data show spending is up 3.4 percent from one year ago. Online sales now account for 10.7 percent of all retail sales, up from 9.8 percent one year ago and 6.4 percent five years ago. The good news from a retail real estate perspective is that consumers continue to ramp up their retail spending; the not-so-good news is that online spending continues to capture a greater share of shoppers' wallets—a trend that is not likely to change course.

As store closures continue, those vacancies put stress on individual centers. However, the overall market fundamentals are not as bleak as one might imagine. Thus far in the cycle, the economy has been strong enough to create new merchants to fill the voids created by the evolving retail climate. Vacancy across the country has held fairly steady, construction of new retail properties has slowed to keep pace with demand, and rents in many locations have been inching upward.

Sales velocity has weakened compared with 2018, while cap rates have seen a modest uptick. The relatively stable market conditions have lenders taking a fresh look at financing retail real estate as investors repurpose vacant spaces.

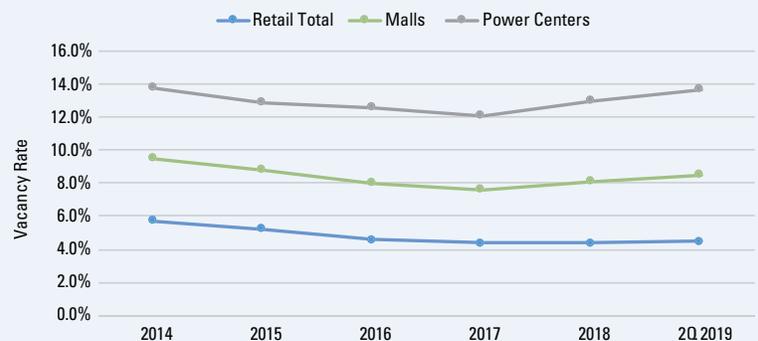
VACANCY

The retail vacancy rate in the U.S. has held very steady in recent years. The rate ended the second quarter at 4.5 percent, up 10 basis points from the first quarter but identical to the figure from one year earlier.

Vacancy dipped below 5 percent in 2016 and has remained in the mid-4-percent range for the past several quarters. The rate was declining at an average of about 50 basis points per year from 2012 to 2016, but the rate leveled off in the past few years.

While the overall vacancy rate has been basically flat, some segments of the market are showing weakness amid store closures. Net absorption in power centers has been negative in each of the past five quarters, and the vacancy rate in power centers has risen 80 basis points to 5.2 percent in that time. Vacancy in malls has ticked higher as well, rising 20 basis points in the second quarter to 4 percent.

Vacancy Overview



Sources: NorthMarq, CoStar

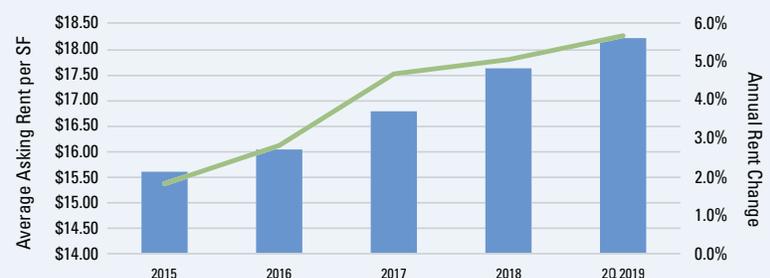
RENTS

Retail rents have been on the rise, after posting minimal gains until 2016. Current asking rents are up 5.7 percent from one year ago.

Asking rents rose 5 percent in 2018, building on a 4.7 percent gain in 2017. Rents averaged just 2 percent per year from 2013 to 2016.

One area where rents are not strengthening is in traditional malls. Asking rents in malls declined 2.8 percent during the past 12 months. Rents in mall space are down more than 20 percent in the past decade.

Rent Overview



Sources: NorthMarq, CoStar



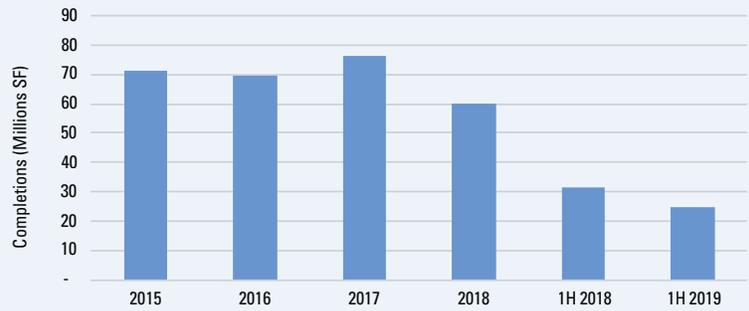
CONSTRUCTION

The amount of new retail construction has been uneven in recent years. Deliveries averaged more than 70 million square feet per year from 2015 to 2017, but construction slowed to approximately 60 million square feet in 2018.

During the first half of this year, approximately 25 million square feet of retail space was delivered, including just 10 million square feet in the second quarter. Deliveries have slowed from last year's pace; during the first half of 2018, nearly 32 million square feet of retail space came online.

The pace of construction is slowing. Projects totaling approximately 70 million square feet are under construction, down approximately 9 percent from one year ago.

Construction Overview



Sources: NorthMarq, CoStar



MULTI-TENANT RETAIL SALES

Investment activity in multi-tenant retail properties during the second quarter ticked up about 5 percent from levels recorded during the first quarter. Despite the recent uptick, sales velocity in the first half of 2019 is down nearly 20 percent from the first half of last year.

The median sales price for shopping centers during the first half of this year was \$113 per square foot, approximately 10 percent lower than the 2018 median price.

Year-to-date cap rates in shopping center sales have averaged approximately 7.8 percent, a modest uptick from the 2018 average.

**1H SALES
VELOCITY**

20%

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