

Capital Trends

US Retail

11.8% YOY price change
\$18.2b Transaction volume
-9% YOY volume change

The retail sector swam against the current in the third quarter with signs of growth in investor interest even as other commercial property sectors posted falling deal volume. The headline figures for retail were down of course, but part of the decline comes from the lagging effect of a large entity-level deal a year earlier. Not all is not well with retail, however, as the shopping center subtypes provided the lift while other segments fell.

Individual asset sales represent the bedrock of the market as such transactions involve investors underwriting the strength of individual assets and the tenancies without broader portfolio effects papering over any potential problems. Activity for such deals was up 3% from a year earlier in Q3'22 – not a tremendous gain, but any gain in this environment is good news.

Investment activity did fall sharply for the retail sector during the worst parts of the pandemic and some above-average growth in sales should be expected simply as the market continues to rebound. The \$15.3b in individual asset sales for Q3'22, however, also stands slightly above the average pace of \$13.2b seen in third-quarter periods from 2015 to 2019.

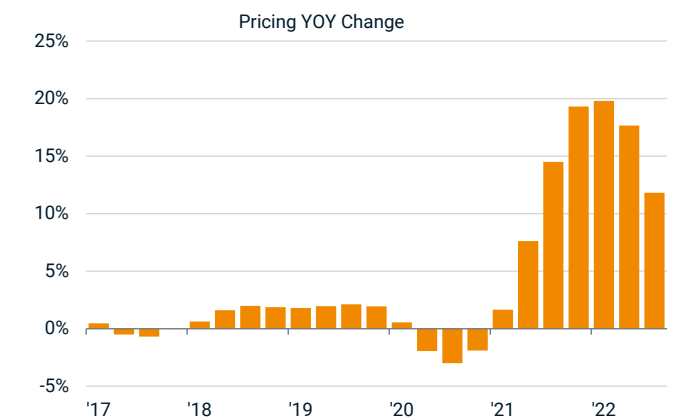
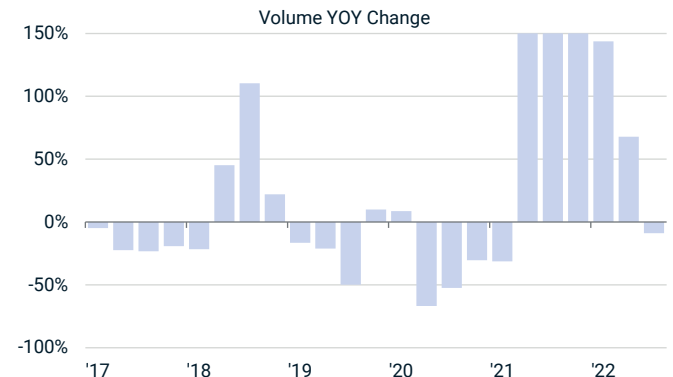
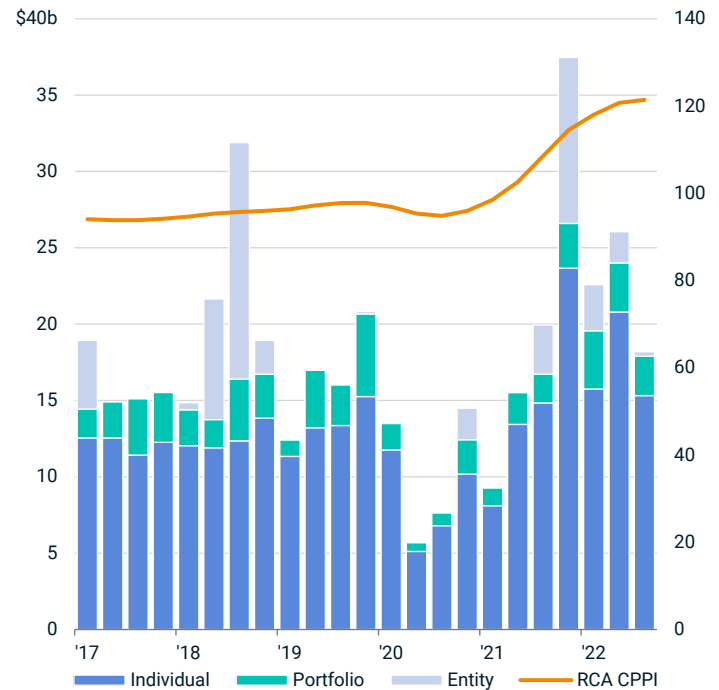
This increase in deal activity has happened in a period where the ability to finance acquisitions became more challenging. In our report for August, we noted that the coupon on 7/10yr fixed rate commercial mortgages stood at 5.4% in July, a figure that has continued to face upward pressure. The 10yr UST, for instance, jumped from an average 2.9% in July to 3.5% in September. As shown on the following page, cap rates have remained at low levels limiting the investment benefits from leverage.

Entity-level sales a year earlier were driven by the merger of Kimco and Weingarten. Such deals were minimal this year, but portfolio sales climbed. One transaction accounted for just over one-third of all portfolio sales in the quarter and involved the sale of 33 grocery-anchored shopping centers. Without this one deal, portfolio activity would have been lower than a year earlier. Portfolio activity would also have been at about half of the average third-quarter pace from 2015 to 2019 without this one transaction.

Transaction Volume Summary

	Q3 2022		YTD 2022	
	Vol (\$b)	YOY	Vol (\$b)	YOY
Retail Total	18.2	-9%	66.8	49%
Centers	12.5	-5%	47.1	84%
Shops	5.7	-17%	19.7	3%
Single Asset	15.3	3%	51.9	42%
Portfolio & Entity	2.9	-44%	15.0	80%

Quarterly Transaction Volume and Pricing



Volume YOY change truncated at 150%

Recent Trends

To the extent there was growth in deal volume for the third quarter, it was with the shopping centers. Transactions involving individual shopping centers were up 19% from a year earlier on sales of \$10.4b. Deals involving shop space, by contrast, were down 19% on sales of \$4.9b.

The shop space world is heavily exposed to single-tenant net-leased-type assets which will have little upside for income growth. These assets are often viewed as a bond alternative and in an environment of increasing interest rates, buyers would be less likely to step up to these deals unless sellers were willing to do deals at higher cap rates. So far this is little evidence of such moves.

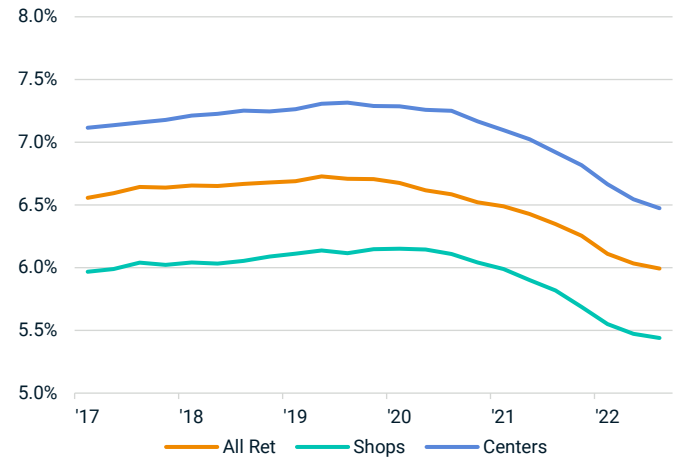
Prices for shop space did decline relative to Q2'22, with the RCA CPPI for shop space down at annualized pace of 0.6%. Sharper declines in prices would likely be needed to make investors excited enough about the sector to drive strong growth in deal volume again.

The RCA Hedonic Series cap rates for shop space stood at 5.8% in Q3'21 and fell to 5.4% in Q3'22. Given the increase in commercial mortgage rates over that same time frame, there simply is no more benefit from leverage in the acquisition of shop space. Again, the coupon on 7/10yr fixed rate commercial mortgages stood at 5.4% in July.

The benefits from leverage in shopping center acquisitions were better for the quarter. The RCA Hedonic Series cap rates for shopping centers stood at 6.5%, a 110 bps spread to commercial mortgage rates. A year earlier, these cap rates stood at 6.9% but mortgage rates were at 3.5%, so 340 bps of spread. Deal volume climbed sharply on the back of this yield opportunity.

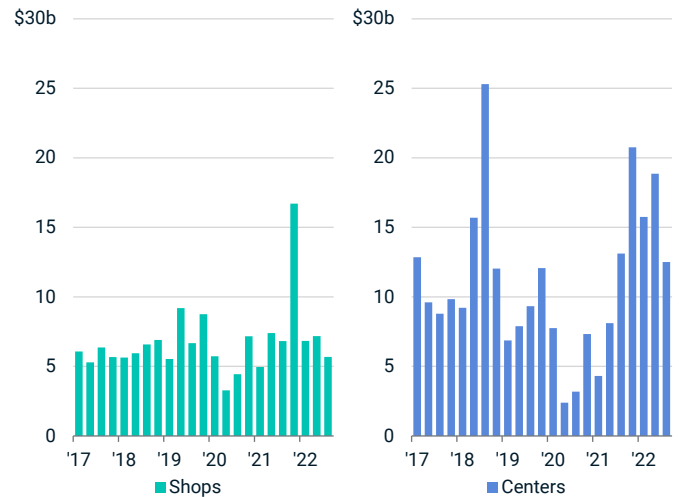
Price growth is decelerating even in the shopping center segments, however. Relative to Q2'22, the RCA CPPI for shopping center space climbed at only a 0.3% annualized pace. Relative to a year earlier, this index was up 11.4%. The difference between these measures of growth suggests a loss of momentum for the sector.

Cap Rates



RCA Hedonic Series

Quarterly Transaction Volume by Subtype



Q3 2022 Deal Volume and Pricing Summary

	Quarterly Volume				RCA CPPI		Price Averages		
	\$b	YOY Chg	#Props	YOY Chg	1-qtr Chg	1-yr Chg	\$/sf	Cap Rate	YOY Chg (bps)
Retail Total	18.2	-9%	1,566	-29%	0.6%	11.8%	208	6.0%	-40
Centers	12.5	-5%	773	-22%	0.1%	11.4%	179	6.5%	-40
Shops	5.7	-17%	793	-34%	-0.1%	9.2%	308	5.4%	-40
6 Major Metro	4.7	-8%	354	-30%	1.3%	10.7%	284		
Non-Major Metro	13.5	-9%	1,212	-28%	0.4%	12.3%	189		
Grocery	4.0	-30%	212	-37%	0.1%	11.3%	179	6.0%	-50
Unanchored Retail Center	3.5	-3%	428	-22%	-0.7%	11.2%	256	6.1%	-50
Single Tenant Retail	3.5	-13%	488	-28%	0.3%	9.0%	259	5.6%	-20
Drug Store	1.0	6%	163	-11%	-0.2%	7.4%	460	5.3%	-30

RCA Hedonic Series cap rates

Top Markets

Seven of the top 25 markets for retail investment surpassed their previous high-water marks through the first three quarters of 2022. For three of these markets – #12 East Bay, #13 Orange Co, and #15 San Jose – their record high investment is a function of a single transaction. Without the acquisition of Donahue Schriber by First Washington Realty and CalPERS, there would be just four markets with record-breaking investment: #6 Phoenix, #8 Boston, #11 Sacramento and #17 Orlando.

Los Angeles secured the #1 spot in the rankings without a boost from one-off megadeal activity. Nearly all of the market’s \$3.6b in year-to-date retail investment was tied to single asset sales. The sale of the Westfield Santa Anita in the Los Angeles market was the largest single asset acquisition thus far into the year. At \$537.5m, the deal is also the largest sale of a single retail asset, mall or otherwise, to close following the first pandemic-related lockdowns.

At #6, Phoenix was the highest ranked market to achieve record-setting investment. Like Los Angeles, single asset sales accounted for the majority of the market’s volume, with megadeal activity comprising only 5% of all sales. Phoenix was one of just three markets to have the majority of investment thus far into the year come from third quarter sales. For Phoenix, #14 Philadelphia, and #19 Broward, third quarter sales accounted for at least 40% of year-to-date retail purchases.

Falling 12 spots from its year-end position, the NYC Boroughs ranked at #23 on the list of top retail markets. Compared to average investment levels in the five years prior to the pandemic, activity in the current year is trailing by more than 45%. Manhattan, which ranked #18, is the only market further behind in its retail market recovery. Still, while the NYC Boroughs was the only top market to post falling volume on a year-over-year basis, Manhattan is trending upward with 6% annual growth.

Most Active Markets Year to Date 2022

2020	2021	YTD'22	Market	Sales Volume (\$m)	YOY Change
1	1	1	Los Angeles	3,582	67%
3	5	2	Chicago	2,528	73%
6	3	3	Atlanta	2,418	32%
4	2	4	Dallas	2,294	33%
8	4	5	Houston	1,919	18%
11	6	6	Phoenix	1,667	0%
20	7	7	Seattle	1,601	78%
18	9	8	Boston	1,557	58%
7	10	9	Miami/Dade Co	1,555	113%
22	18	10	San Diego	1,467	61%
40	35	11	Sacramento	1,386	261%
9	34	12	East Bay	1,244	128%
10	13	13	Orange Co	1,163	50%
21	26	14	Philadelphia	1,143	161%
16	28	15	San Jose	1,139	76%
30	20	16	Las Vegas	1,061	102%
17	23	17	Orlando	1,053	51%
2	8	18	Manhattan	1,024	6%
34	15	19	Broward	985	83%
26	19	20	Palm Beach Co	932	84%
25	22	21	Tampa	925	28%
13	16	22	No NJ	921	37%
5	11	23	NYC Boroughs	786	-8%
14	17	24	Denver	779	19%
19	30	25	Minneapolis	764	61%

Markets in orange denote record high volume for the first nine months of the year; YOY change truncated at 150%.

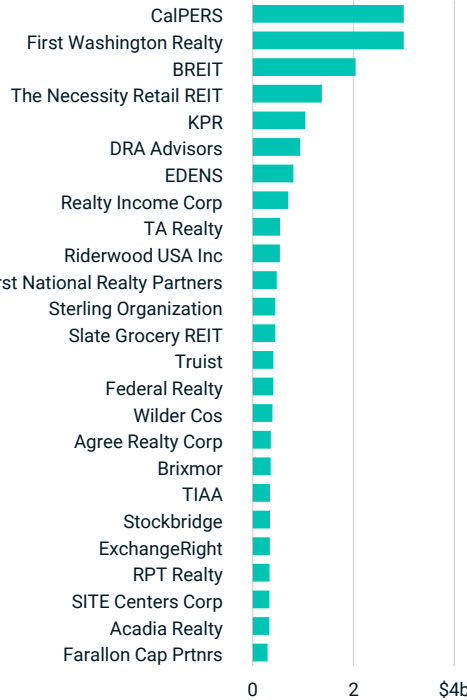
Top Players and Deals Year to Date 2022

Top Retail Buyers and Sellers

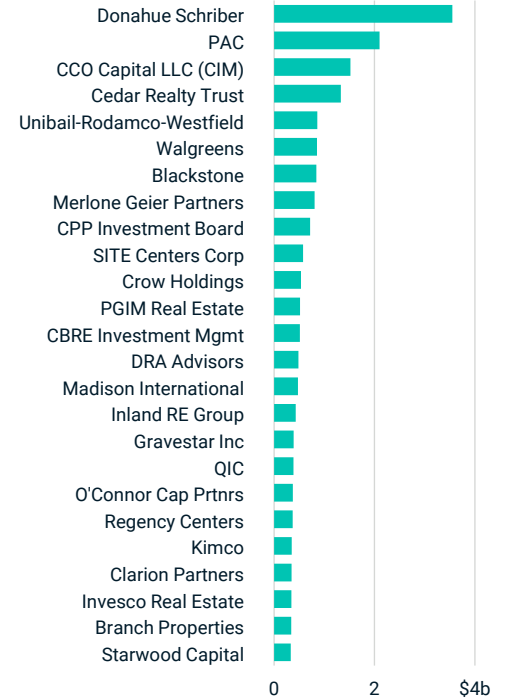
Buyers by Region

Mid-Atlantic	Southeast
KPR	BREIT
DRA Advisors	Necessity Retail REIT
BREIT	Slate Grocery REIT
Federal Realty	Stockbridge
Wheeler REIT	Publix
Midwest	Southwest
Realty Income Corp	Acadia Realty
Necessity Retail REIT	Big V Properties
DRA Advisors	InvenTrust
MKiezi Investments	BREIT
Brixmor	Farallon Cap Prtnrs
Northeast	West
TA Realty	CalPERS
Wilder Cos	First Washington Re
DRA Advisors	EDENS
KPR	Riderwood USA Inc
TIAA	Landry's Restaurants

Buyers



Sellers



Ranked by investment volume.

Methodology: Rankings are based on the pro-rated share of the total property or portfolio value. In the case of joint ventures, full credit is assigned to each investor. For more information please visit the MSCI Real Capital Analytics website.

Top Retail Single Asset Property Sales

Property	Location	Size	Type	Volume(\$m) ^A	\$/unit	Buyer	Seller
1 Westfield Santa Anita	Arcadia, CA	1,472,167 sq ft	RET	537.5	365	Riderwood USA Inc	Unibail-Rodamco-Westfield JV CPPIB
2 3729 S Las Vegas Boulevard	Las Vegas, NV	115,942 sq ft	RET	270.0	2,329	Landry's Restaurants	Spectrum Group Mgmt
3 Ridge Hill	Yonkers, NY	1,200,000 sq ft	RET	219.5	183	TIAA JV North American Props	QIC
4 Mary Brickell Village	Miami, FL	539,722 sq ft	RET	216.0	400	RPT Realty	Rockpoint Group JV CDPQ
5 1600 Broadway	New York, NY	25,693 sq ft	RET	191.5	7,453	Paramount Grp (REIT) JV BVK	Sherwood Equities
6 Shops at Pembroke Gardens	Pembroke Pines, FL	391,114 sq ft	RET	180.5	462	Federal Realty	Jeffrey R Anderson RE
7 Scottsdale Promenade	Scottsdale, AZ	566,663 sq ft	RET	180.0	318	David Megdal	Blackstone AKA Blackstone
8 The Plant San Jose	San Jose, CA	512,500 sq ft	RET	175.0	341	The Necessity Retail REIT	CCO Capital LLC (CIM)
9 Convoy Gateway	San Diego, CA	135,414 sq ft	RET	165.0	1,218	GH Palmer Associates	Hammer Ventures
10 Plaza Mexico - Los Angeles	Lynwood, CA	404,064 sq ft	RET	164.6	407	Sterling Organization	Donald & Min Chae
11 Providence Town Center	Collegeville, PA	740,000 sq ft	RET	161.8	219	Finmarc Management JV KPR	Brandolini Co JV Invesco RE
12 Galleria	Edina, MN	381,801 sq ft	RET	150.0	393	70th Street Properties	Hines
13 Westfield Promenade	Los Angeles, CA	688,000 sq ft	RET	150.0	218	The Kroenke Group	Unibail-Rodamco-Westfield JV CPPIB
14 Westfield Citrus Park	Tampa, FL	1,099,000 sq ft	RET	-	-	Hull Property Group	Unibail-Rodamco-Westfield JV O'Connor
15 Oakland Mall	Troy, MI	509,000 sq ft	RET	-	-	MKiezi Investments	Urban Retail Props JV Principal Financial

^A When prices are not known, estimated prices are used in the ranking but are not shown. Volume is adjusted pro-rata for partial interests although \$/unit reflects 100% valuation.

* Partial interest ** Forward sale Excludes development site sales

The number of buyers or sellers shown on a deal is truncated to two. For full deal and player information go to the MSCI Real Capital Analytics website.

Top Brokers Year to Date 2022

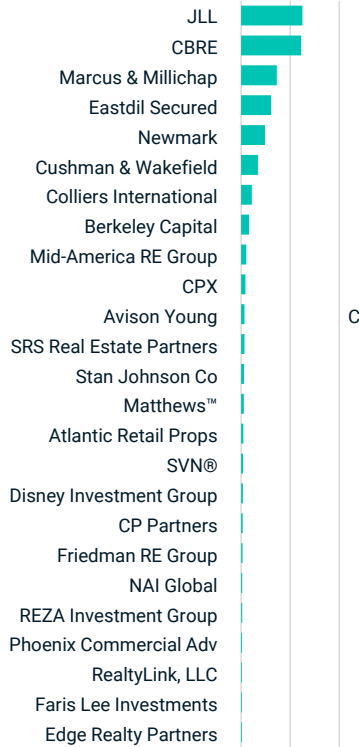
By Region

Mid-Atlantic

JLL
 Marcus & Millichap
 CBRE
 Avison Young
 Cushman & Wakefield

By Retail Investment Volume

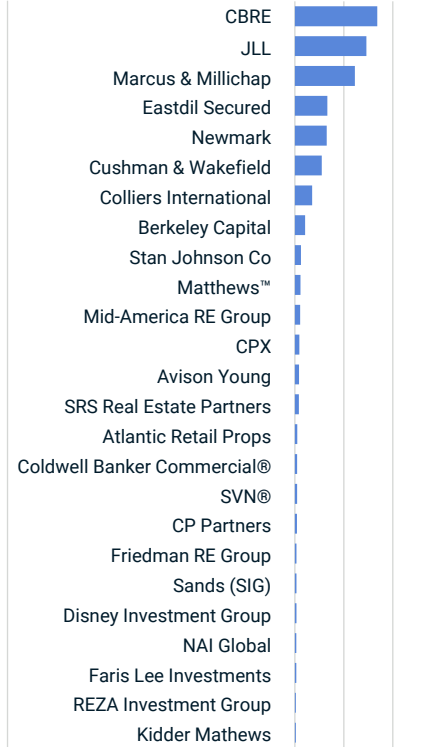
Centers



Shops



All Retail



Midwest

CBRE
 Marcus & Millichap
 JLL
 Mid-America RE Group
 Cushman & Wakefield

Northeast

JLL
 Newmark
 Marcus & Millichap
 Cushman & Wakefield
 CBRE

Southeast

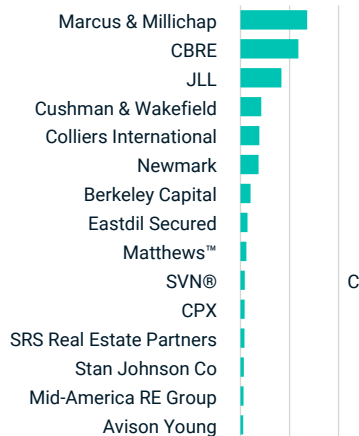
CBRE
 JLL
 Marcus & Millichap
 Berkeley Capital
 Eastdil Secured

By Number of Retail Properties

Southwest

CBRE
 JLL
 Marcus & Millichap
 Cushman & Wakefield
 Eastdil Secured

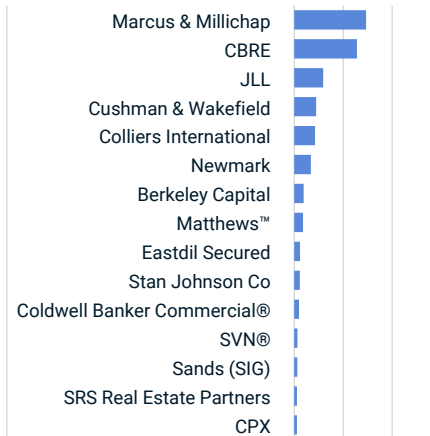
Centers



Shops



All Retail



West

Eastdil Secured
 CBRE
 Newmark
 Marcus & Millichap
 JLL

Ranked by investment volume

Methodology: Full credit assigned to each broker when multiple brokers involved. For partial-interest, volume is based on the pro-rated share of the total property or portfolio value. Based on sell-side representation. The transaction volume of brokerage firms that have merged are left unconsolidated before the merger date and are attributed to the surviving or newly formed company after the merger date. For more information on rankings please visit the MSCI Real Capital Analytics website.

Jim Costello

Chief Economist, Real Assets Research

Alexis Maltin

Head of Americas, Real Assets Research

Haley Crimmins

Vice President, Real Assets Research

Wyatt Avery

Senior Associate, Real Assets Research

Michael Savino

Senior Associate, Real Assets Research

Cole Barker

Analyst, Real Assets Research

Methodology

Data based on properties and portfolios \$2.5m and greater unless otherwise stated. Data as of Oct. 18, 2022 unless otherwise stated.

About Capital Trends

Capital Trends reports analyze and interpret trends in the global real estate market. US Capital Trends is a monthly edition comprising an overview of the U.S. market and separate reports on the five main property types. Asia Pacific, Australia, Europe and Global Capital Trends are published quarterly.

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