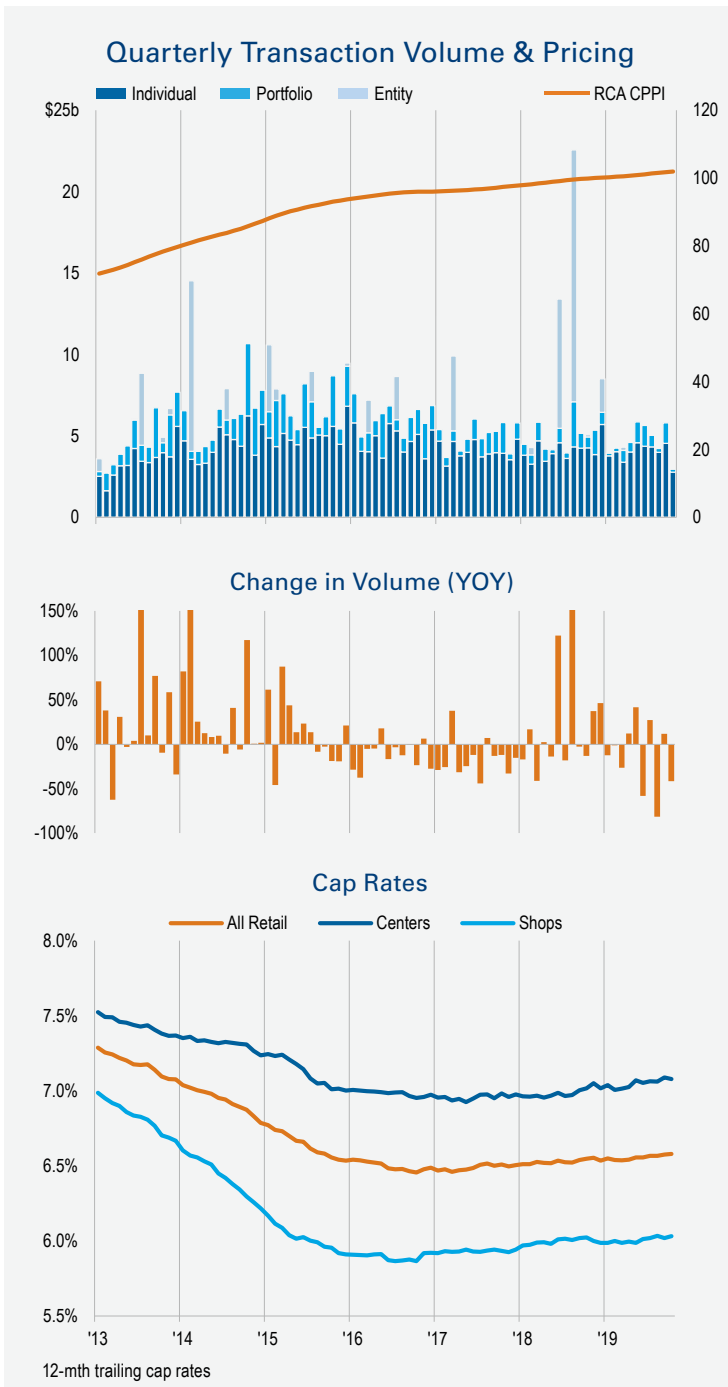


US CAPITAL TRENDS | RETAIL

Deal activity is falling for retail. October is not all a story about entity-level transactions that completed last year and are without counterparts in 2019. There is a pullback in volume combined with increasing cap rates which suggests concerns for the sector.

\$3.0b Transaction volume
-42% YOY volume change
2.1% YOY price change



Economic uncertainty has been on the rise since midyear and deal activity has seesawed back and forth between year-over-year growth and decline. This pattern is rooted in memories of the retail sector performance in the recession a decade ago, when consumer activity pulled back sharply.

The RCA CPPI for retail properties showed a peak-to-trough cumulative decline of 37% in the last recession. This decline was only surpassed by the drops seen for the suburban office and hotel sectors, where some of the excesses in the commercial real estate world in that cycle were more pronounced.

The bedrock of the retail market is the sale of individual assets where investors underwrite the risks of these assets with respect to the location, quality, and NOI trends of that particular building. Such sales were down 35% YOY in October.

Looking at individual asset sales also helps to disentangle the impact of the entity-level transactions a year ago from the trend in investor interest in the sector. For the year to date, even stripping out that distortion, sales are down from the pace set last year.

Cap rates have edged up 10 bps over the last year, averaging 6.6% nationally in October. Cap rates for shopping centers averaged 7.1% in October, also up 10 bps. Cap rates for shops averaged 6.0% for the month, unchanged from last year.

Still, even the unchanged cap rates for shops reflects investor concern. The 10yr UST has moved down from an average 3.2% level in October 2018 to 1.7% this year. Investors in shop space effectively want 150 bps more protection for their purchases of shop space vs. a year ago.

The combination of falling deal volume and rising cap rates (or at least rising cap rate spreads) suggests that buyers and sellers have moved apart on pricing expectations. Sellers are still holding out for higher valuations, but potential buyers are more cautious.

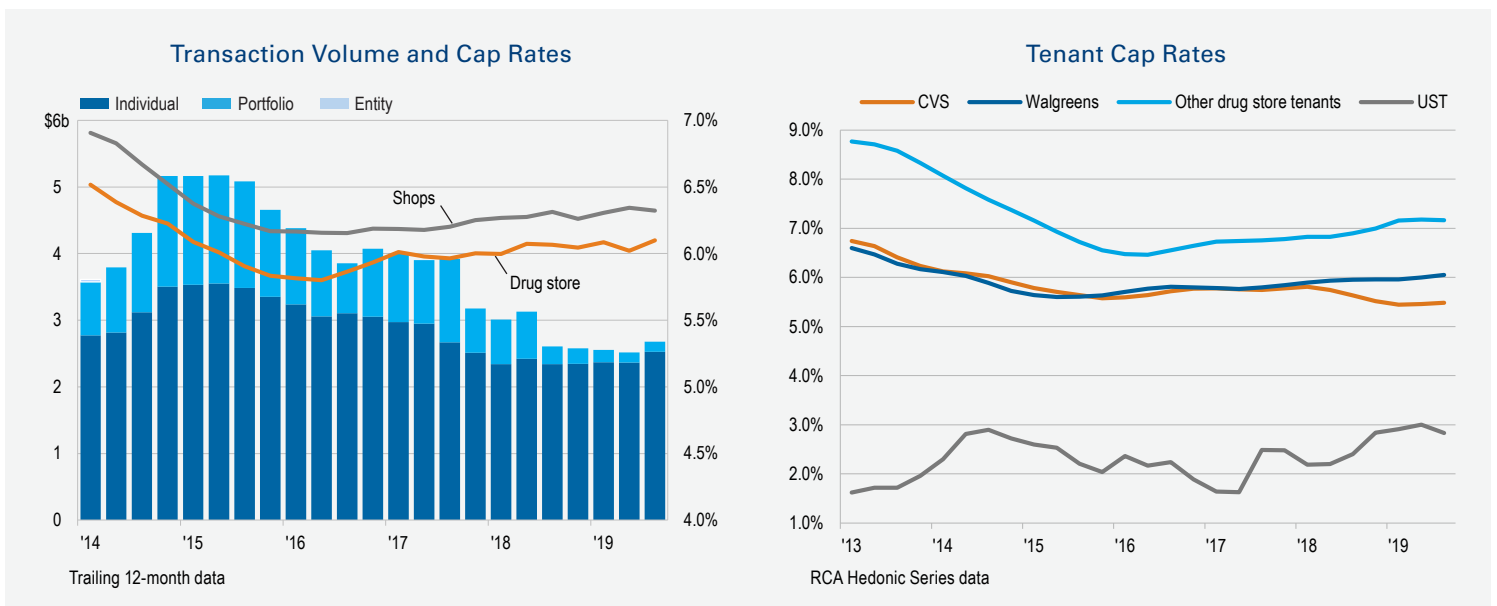
Spotlight: Drug Stores

All is not doom and gloom in the retail sector. In the third quarter of 2019, sales of drug store assets totaled \$706m, a level 29% above that seen in the prior year. While this level of growth was made possible by a quiet Q3 2018, the volume seen in the past quarter is still 12% above the long-term average for third quarter volume. Furthermore, current volumes are not a function of one-off megadeals. Single asset sales, a barometer for the health of the market, grew 33% YOY and made up 92% of the volume for the quarter.







Despite the perceived turbulence in the retail sector, pricing for drug stores has remained tight. Between 2014 and 2018, the spread between drug store cap rates and those for the shops subtype averaged 30 bps. In 2019, this spread was virtually unchanged. The 6.1% cap rate seen for drug stores

in the current period is only 30 bps above the historic lows seen for the sector in early 2016, and 70 bps below the long-term average for the asset class.

While drug stores overall have fared well, two franchises stand above the rest. In the world of drug stores, CVS and Walgreens reign supreme, commanding cap rates an average of 90 bps below other drug store tenants. In the third quarter of 2019, the spread grew to a whopping 140 bps. Even between the two top drug store brands, investors appear to have developed a preference. Historically, CVS assets have traded at cap rates 10 bps below those of Walgreens. At the start of this year the spread between CVS and Walgreens cap rates stretched to more than 50 bps and the gap has stayed as wide through the third quarter.



Market Table | All Retail

Retail Transactions Reported Closed		Centers				Shops				All Retail			
		Volume		Price		Volume		Price		Volume		Price	
YTD through Oct'19		\$m	# Props	\$/sf	Avg Cap Rate	\$m	# Props	\$/sf	Avg Cap Rate	\$m	# Props	\$/sf	Avg Cap Rate
Mid-Atlantic 	Baltimore	254.1	17	161	7.8%	93.2	12	320	6.4%	347.4	29	194	7.0%
	DC	61.0	1			157.7	25	671		218.6	26	796	5.4%
	DC MD burbs	617.9	19	211	6.2%	88.4	12	227	6.0%	706.3	31	214	6.1%
	DC VA burbs	441.4	13	195	6.2%	138.1	16	365	5.8%	579.6	29	248	6.0%
	Philadelphia	159.0	14	160	6.4%	385.5	30	291	5.6%	544.5	44	216	5.9%
	Pittsburgh	71.3	5	70	8.3%	67.2	13	189		138.5	18	141	8.2%
	Richmond/Norfolk	524.2	24	149	8.5%	49.8	12	152	6.6%	574.0	36	149	7.8%
	Tertiary Mid-Atlantic	408.5	41	108	7.8%	382.5	78	128	6.5%	791.0	119	116	7.2%
	Total	2,537.4	134	158	7.4%	1,362.5	198	220	6.2%	3,899.8	332	176	6.9%
Midwest 	Chicago	673.1	72	106	7.4%	1,035.9	121	281	6.2%	1,709.0	193	165	6.7%
	Cincinnati	63.3	13	92	8.3%	27.6	8	169	7.1%	90.9	21	108	7.9%
	Cleveland	20.2	3	82	6.4%	90.8	15	86		111.0	18	85	6.5%
	Columbus	43.3	6	284	7.5%	42.0	12	88	7.1%	85.4	18	119	7.3%
	Detroit	167.1	19	100	8.1%	111.4	21	141	6.4%	278.6	40	118	7.7%
	Indianapolis	139.9	21	198	7.6%	104.0	12	205	6.6%	243.9	33	199	7.3%
	Kansas City	183.4	21	139	7.3%	126.2	23	227	7.2%	309.6	44	156	7.3%
	Minneapolis	222.1	28	170	7.5%	220.3	35	303	6.1%	442.4	63	216	6.7%
	St Louis	187.5	20	100	8.2%	122.6	19	185		310.1	39	115	8.0%
	Tertiary Midwest	1,448.7	161	79	8.3%	1,508.5	311	109	7.2%	2,957.2	472	90	7.7%
Total	3,148.5	364	99	7.8%	3,389.5	577	165	6.7%	6,538.0	941	123	7.3%	
Northeast 	Boston	545.2	24	330	4.7%	373.8	42	305	6.1%	919.0	66	319	5.7%
	Hartford	50.7	6	117		5.8	2	81		56.5	8	111	
	Long Island	57.3	8	235		114.3	20	418	5.2%	171.6	28	331	5.7%
	Manhattan	205.4	4	1,125		2,281.9	95	1,498	4.8%	2,487.3	99	1,464	4.8%
	No NJ	186.8	18	148	6.7%	376.7	68	252	5.3%	563.4	86	202	6.0%
	NYC Boroughs	143.3	9	334	5.4%	838.9	143	701	5.0%	982.2	152	603	5.1%
	Stamford	106.8	6	483	5.7%	45.6	4	856		152.4	10	556	6.2%
	Westchester	324.8	11	337	4.3%	126.9	22	169	6.4%	451.7	33	274	5.6%
	Tertiary Northeast	676.7	48	78	7.5%	368.8	55	159	6.1%	1,045.5	103	95	6.8%
	Total	2,296.9	134	175	6.3%	4,554.2	456	530	5.3%	6,851.1	590	316	5.6%
Southeast 	Atlanta	968.9	66	198	7.2%	250.3	55	239	6.1%	1,219.2	121	205	6.6%
	Broward	305.4	21	215	7.2%	81.2	17	437		386.6	38	239	7.2%
	Charlotte	258.8	27	195	8.0%	224.3	34	196	6.5%	483.1	61	195	7.0%
	Jacksonville	228.5	24	112	7.6%	119.7	17	225	5.5%	348.2	41	134	6.4%
	Memphis	47.2	10	99	7.9%	48.0	14	106		95.2	24	102	7.9%
	Miami	245.7	11	238	6.4%	342.9	40	677	5.1%	588.6	51	378	5.5%
	Nashville	153.7	12	139	7.4%	123.7	20	243		277.5	32	169	6.9%
	Orlando	457.6	42	144	7.7%	155.8	33	260	6.0%	613.4	75	162	6.9%
	Palm Beach	540.2	22	206	6.4%	108.6	19	235	6.2%	648.7	41	211	6.3%
	Raleigh/Durham	317.8	24	118	7.2%	149.6	22	401	5.9%	467.4	46	141	6.4%
	Tampa	331.5	33	137	7.8%	193.8	33	230	6.3%	525.2	66	159	6.9%
	Tertiary Southeast	2,164.2	235	116	7.6%	1,301.6	281	192	6.4%	3,465.7	516	135	7.0%
Total	6,019.4	527	143	7.4%	3,099.5	585	228	6.2%	9,118.9	1,112	163	6.8%	
Southwest 	Austin	314.2	22	210	6.5%	223.0	29	585		537.2	51	247	6.5%
	Dallas	1,011.9	76	186	6.9%	748.4	98	201	5.9%	1,760.3	174	190	6.5%
	Denver	329.5	31	183	7.6%	304.6	39	248	7.0%	634.1	70	210	7.3%
	Houston	574.3	73	164	7.0%	358.7	49	335	6.5%	933.1	122	188	6.9%
	Phoenix	667.4	64	202	6.8%	309.7	63	224	6.1%	977.0	127	208	6.5%
	San Antonio	222.7	31	159	7.5%	120.8	23	361	5.9%	343.5	54	192	7.0%
	Tertiary Southwest	984.8	102	131	7.4%	1,075.4	171	183	6.6%	2,060.2	273	150	7.0%
	Total	4,104.7	399	168	7.1%	3,140.6	472	217	6.4%	7,245.4	871	183	6.8%
West 	East Bay	187.1	13	290	5.6%	255.2	35	266	5.5%	442.3	48	275	5.6%
	Inland Empire	466.2	38	221	6.3%	285.2	47	217	5.5%	751.3	85	220	5.9%
	Las Vegas	660.6	39	231	6.7%	173.8	20	285	5.0%	834.4	59	239	6.4%
	Los Angeles	1,384.3	68	413	5.7%	1,378.3	194	477	4.9%	2,762.6	262	443	5.3%
	Orange Co	447.5	34	346	5.0%	311.7	41	289	5.3%	759.3	75	320	5.1%
	Portland	294.5	13	264	7.1%	198.3	31	207		492.8	44	243	7.1%
	Sacramento	288.9	25	153	5.9%	128.7	27	296	5.8%	417.6	52	181	5.9%
	Salt Lake City	132.0	13	106	7.0%	146.5	25	144	6.8%	278.5	38	120	6.9%
	San Diego	610.8	27	292	6.3%	299.5	41	376	5.1%	910.2	68	316	5.9%
	San Francisco	653.8	7	711	4.8%	540.7	50	1,083	5.0%	1,194.5	57	837	4.9%
	San Jose	411.4	5	710		286.3	34	833	4.1%	697.7	39	750	4.2%
	Seattle	670.4	44	271	7.1%	463.2	77	373	5.0%	1,133.6	121	309	5.9%
Tertiary West	1,126.2	101	159	6.6%	1,167.0	171	249	6.1%	2,293.2	272	194	6.3%	
Total	7,333.6	427	277	6.2%	5,634.4	793	350	5.4%	12,968.0	1,220	304	5.8%	
Total	Total US	25,440.5	1,985	169	7.1%	21,212.2	3,084	285	6.0%	46,652.7	5,069	206	6.6%

Selected Recent Transactions

Property Name Address Location	SF Year Built Notes	Price \$/sf Qualifier	Owner/Buyer Seller Broker
--------------------------------------	---------------------------	-----------------------------	---------------------------------

Mid-Atlantic

Juniper 2501 M St NW Washington, DC	11,467 2018 Shops	\$15,000,000 \$1,308 approximate	PRP LLC from Davidson Kempner
Shoppes at Hamilton 549 Rte 130 Bordentown, NJ	125,000 2009 Centers	\$8,250,000 \$66 confirmed	Penwood REIM from Stoltz RE Partners by Cushman & Wakefield

Midwest

Calhoun Square 3001 Hennepin Ave S Minneapolis, MN	177,251 1989 Centers	\$34,500,000 \$195 approximate	NorthPond Partners from The Ackerberg Group by Cushman & Wakefield
The Plaza at Depaul 12222-12298 St Charles Rock Rd Bridgeton, MO	187,142 1985 Centers	\$19,800,000 \$106 confirmed	RH Johnson Co from Lightstone Value Plus by CBRE

Northeast

350 Washington Street 350 Washington St Boston, MA	149,977 1965 Centers	\$134,211,350 \$895 confirmed	Nuveen (US) from Invesco Real Estate by JLL
Super Stop & Shop Center 278 Washington St Stoughton, MA	79,297 1988 Centers	\$19,525,000 \$246 confirmed	RK Centers from Katz Properties by JLL

Southeast

Market Street at Heath Brook 4414 SW College Rd Ocala, FL	394,044 2008 Centers	\$39,750,000 \$101 confirmed	Columbus Pacific Props from MGHerring Group JV Tricom Real Estate JV Contrarian Cap Mgmt by JLL
Southside Shoppes 9930-9990 Southside Blvd Jacksonville, FL	109,113 2004 Centers	\$23,300,000 \$214 confirmed	Anthony DeRosa JV Core Investment Mgmt from Brixmor by JLL

Southwest

Hillside Village 305 FM1382 Cedar Hill, TX	611,232 2007 Centers	\$58,500,000 \$96 confirmed	PREP Property Group from Prudential RE Investors JV Trademark Property Co by Eastdil Secured
Glendale Galleria 5800 W Peoria Ave Glendale, AZ	119,525 1989 Centers	\$14,800,000 \$124 approximate	James Case from Brixmor by SRS RE Prtnrs

West

Aliso Creek Shopping Center 30822 Coast Hwy Laguna Beach, CA	49,149 1986 Centers	\$57,600,000 \$1,172 approximate	Mobilitie from LaSalle by JLL
Plaza Pacoima 13510-13550 Paxton St San Fernando, CA	203,743 2010 Centers	\$51,300,000 \$252 confirmed	Blackstone from Federal Realty by Newmark Knight Frank



Hillside Village
Cedar Hill, TX



Aliso Creek Shopping Center
Laguna Beach, CA

Jim Costello, Senior Vice President [Contact](#)

Robert M. White, Jr., Founder & President

Alexis Maltin, Senior Manager, Analytics

Shane Omundsen, Analyst

About Real Capital Analytics

Real Capital Analytics (RCA) is the authority on the deals, the players and the trends that drive the commercial real estate investment markets. Covering all markets globally, RCA delivers timely and reliable data with unique insight into market participants, pricing and capital flows. The most active investors, lenders and advisors depend on RCA's market intelligence to formulate strategy and to source, underwrite and execute deals. An industry pioneer since 2000, RCA has offices in New York, San Jose, London and Singapore. For more information, visit: rcanalytics.com

About Capital Trends

Capital Trends reports analyze and interpret trends in the global real estate market using RCA's comprehensive data. 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, Europe and Global Capital Trends are published quarterly.

Methodology

Data based on properties and portfolios \$2.5m and greater unless otherwise stated. For RCA Hedonic Series methodology [click here](#).

For the most current data and even more options for analysis, visit: rcanalytics.com