Q3 2019
Retail First Glance

Pre-Release Analysis of Third Quarter 2019 Moody's Analytics REIS Findings in the Retail Sector

RETAIL SURVIVES MORE STORE CLOSURES

The drama in the retail sector has subsided a bit as fewer big stores closed in the quarter. Still, some stores did close and more announced planned closures and/or bankruptcy including Forever 21, Topshop and Barneys. This pushed the national mall vacancy rate up to 9.4% from 9.3% in the second quarter. One year ago, it was 9.1%. The good news is that the "dark" stores still have not significantly affected the rest of the occupancy for most malls. Many Sears and Macy's stores are owner occupied so were not included in the aggregate mall statistics.

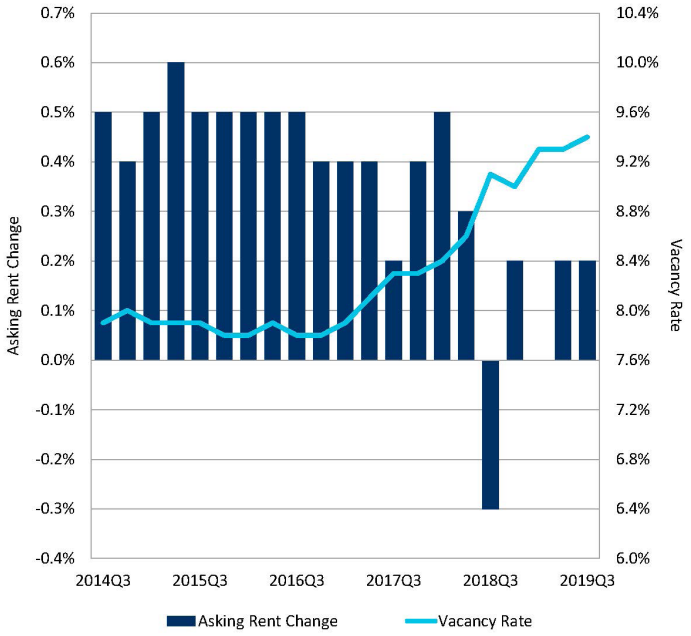
The average mall asking rent increased 0.2% in the third quarter. Since the third quarter of 2018, the average mall rent increased $0.28 per SF or 0.6%.

NEIGHBORHOOD AND COMMUNITY SHOPPING CENTERS

On a brighter note, the neighborhood and community shopping sector saw a decline in vacancy in the third quarter from 10.2% to 10.1%. It had previously held steady at 10.2% for six straight quarters. Similar to the malls, the closed stores have not noticeably affected smaller stores in these retail centers. Our internal leasing data shows new occupants in these centers include fitness centers, grocery stores and home furnishing stores.

The chart on the next page shows how this quarter's occupancy growth was low but still healthy at 1.37 million SF. As mentioned in previous quarters, the national numbers conceal a wide gap between metros with positive absorption and those with negative: 33 metros saw negative net absorption in the third quarter, on par with previous quarters. For the year, only 26 metros show negative net absorption, and 30 metros have a higher vacancy rate as some added more inventory than was absorbed. These totals are better than the 48 metros with higher vacancy just two quarters ago.

REGIONAL AND SUPER REGIONAL MALL VACANCY AND RENT TRENDS



Construction in the neighborhood and community shopping center space was 1.04 million, down from 1.7 million SF added in the second quarter. In the third quarter of 2018, construction was 3.3 million SF. These lower numbers reflect the caution from both developers and lenders that most metros are still over-retailed. Thus far in 2019, only 4.2 million SF has been added to inventory, which was 42% lower than the 7.2 million SF added in the first three quarters of 2018. Only 16 metros saw new construction in the quarter led by Houston, Tampa-St. Petersburg, Dallas, Sacramento and Oakland.

The average neighborhood and community shopping center asking and effective rent increased 0.3% in the third quarter. Both rates were lower than the average growth of 0.4% in the previous six quarters. At $21.45 per SF (asking) and $18.79

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per SF (effective), the average asking and effective rents have increased 1.5% and 1.6%, respectively, since the third quarter of 2018, well below the rate of inflation. The low but positive rent growth seems surprising given the uncertainty surrounding the retail sector, but the average growth rates represent a net of all the metros, many of which incurred declines as detailed below.

STATISTICS BY METRO

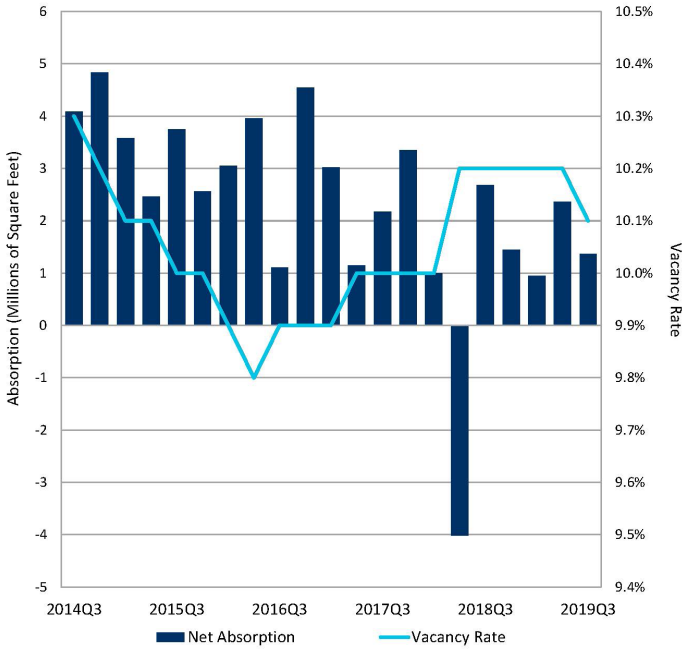
Only 28 metros saw a vacancy rate increase in the quarter and nearly all of these were minor. These were mainly due to negative net absorption as mentioned above. Metros with the largest increase in vacancy include Tucson, Long Island, Syracuse, Birmingham and Charleston. All had a vacancy rate increase of 0.4% to 0.6%. Metros with the biggest drop in vacancy include Louisville, New Haven, Ventura County, Palm Beach and Suburban Virginia. These metros saw vacancy rate declines of 0.4% to 0.5%.

Similarly, the number of metros that posted a rent decline in the quarter increased to 26 from 19 in the previous quarter. Metros with the sharpest effective rent decline include Tacoma, Suburban Virginia, Albuquerque, Atlanta and Norfolk/Hampton Roads which had rent declines of 0.3% to 0.7%. The metros with the highest rent growth were Suburban Maryland, Dayton, Oakland, Palm Beach and Tulsa that each had rent growth of 0.9% to 1.3% in the quarter. For the year, only two metros show a rent decline: Cleveland and Fairfield County. This is a significant improvement over previous quarters that generally had five or more with an annual decline. Metros that saw the strongest rent growth in the year were Nashville, Raleigh-Durham, Houston, Orlando and Suburban Maryland.

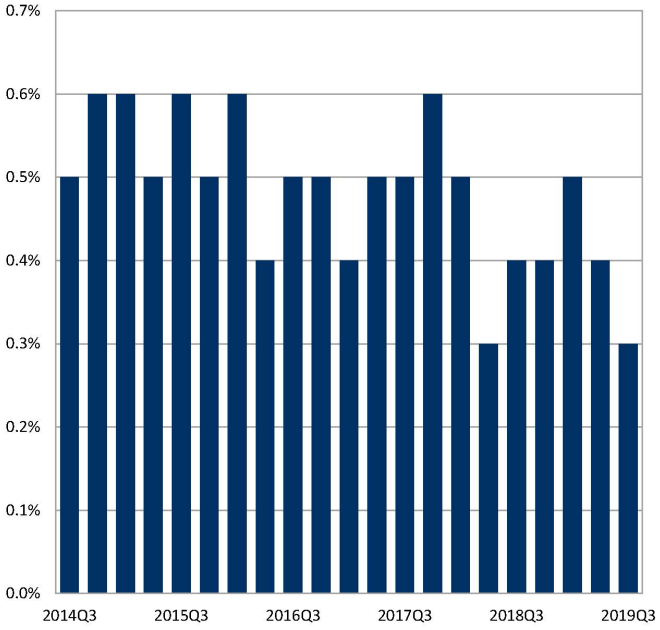
OTHER RETAIL MEASURES

Retail employment numbers show steady declines. Since the end of 2018 through September, the retail sector has lost 77,600 jobs, a loss of 0.5%. Categories that have had the deepest declines were general merchandise stores that lost 71,300 jobs since the start of the year including 46,300

NEIGHBORHOOD AND COMMUNITY SHOPPING CENTER NET ABSORPTION AND VACANCY



NEIGHBORHOOD AND COMMUNITY SHOPPING EFFECTIVE RENT GROWTH



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jobs shed at department. Also, clothing and accessory stores lost 42,100 jobs. Even nonstore retailers (e-commerce companies) show a year-to-date loss of 4,800 jobs.

At the same time, however, restaurants have added 119,600 jobs (+1.0%), while the fitness sector has added 14,400 jobs (+2.2%) and personal services has added 12,300 jobs (+0.8%).

The metro retail employment statistics are somewhat consistent with the occupancy statistics somewhat in that 57 metros shows a year-over-year loss in retail jobs as of September. Those that have lost the most jobs include Columbus, Tucson, New Haven, Richmond and Las Vegas. Those that have added the most retail jobs in early 2019 include Charleston, Colorado Springs, Columbia, Knoxville and Syracuse. Only 60 of the 80 metros tracked by Moody's Analytics REIS have a reported restaurant employment number. Of these, 11 show a year-over-year loss in restaurant jobs, but many show strong restaurant gains including Suburban Virginia, Tacoma, Dallas and New Orleans.

The Census statistics on retail sales shows a mixed picture as e-commerce sales have grown 11% in 2019 over the same period in 2018 (January through July). Yet sporting goods, electronics, furniture and clothing stores show year-over-year declines. Building materials and grocery stores show small gains in 2019 as does general merchandise stores, but department stores fell by 4.5%. Restaurant sales, however, climbed 4.1%. In sum, the aggregate real-estate-using retail sales (that nets out e-commerce, gasoline and automobile sales but adds restaurant sales) shows a year-over-year gain of 2.0% which is consistent with the positive occupancy growth. In fact, real-estate-using retail sales has grown consistently over the last few years. This growth is not reported in the media, but the low gains reflect the new lessors of retail space: restaurants, fitness centers, personal services boutiques and entertainment companies.

RETAIL OUTLOOK

The retail statistics show a continued survival of the sector as the vacancy rate has barely budged in two years despite scores of store closures. Each quarter brings more news of more bankruptcies and/or more store closures, yet occupancy growth remains positive.

As we continue to track new leases in our inventory, our data shows that grocery stores, home and houseware stores and fitness centers continue to lease space as well as trampoline parks, but fewer than a year ago. These latter two non-traditional retail occupants have changed the look of retail centers, but they demonstrate how consumers are spending their money. While consumption growth overall has slowed, it remains positive as job growth has expanded the household income of Americans. We continue to expect to see low but steady positive net absorption and rent growth for both malls and neighborhood and community shopping centers over the next few quarters.

Third Quarter 2019 Market Performance

Improving Fundamentals / Flat or Declining Fundamentals

	Absorption		Occupancy		Effective Rent	
Q3 2019	47+	33	35 ↑	45	54 ↑	26
Q2 2019	52 +	28	34 ↑	46	61 ↑	19
Q1 2019	41 +	39	35 ↑	45	61 ↑	19
Q4 2018	47 +	33	33 ↑	47	62 ↑	18
Q3 2018	45 +	35	31 ↑	49	66 ↑	14

Figures are based on 80 metro markets

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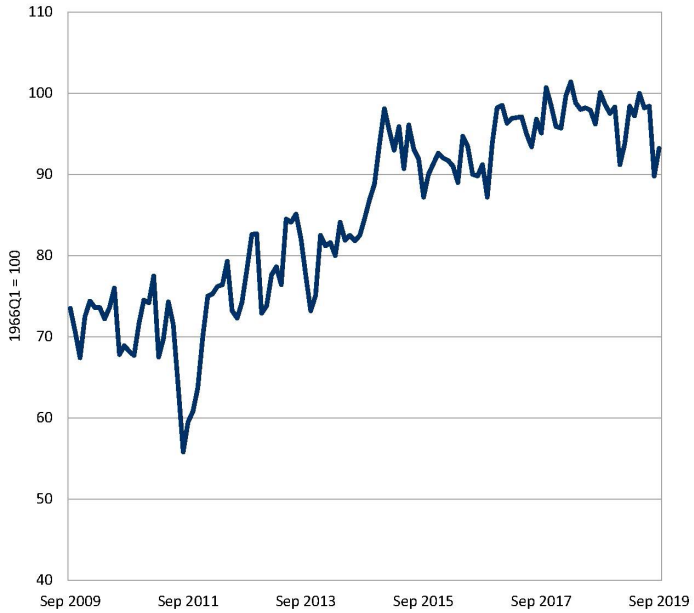
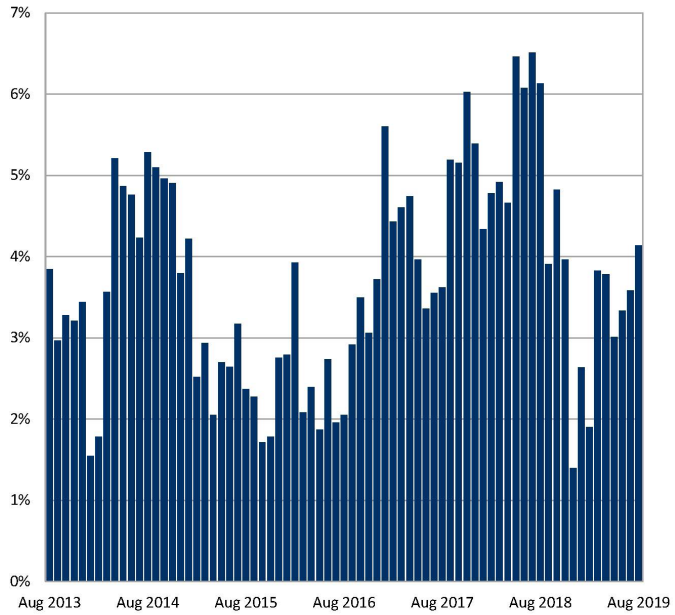
UNIVERSITY OF MICHIGAN CONSUMER SENTIMENT SURVEY



Source: FRED, University of Michigan

12-MONTH CHANGE IN RETAIL AND FOOD SERVICE SALES



Source: U.S. Census Bureau

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