Retail First Glance

Pre-Release Analysis of Second Quarter 2019 Reis Findings in the Retail Sector

2019 Quarter 2

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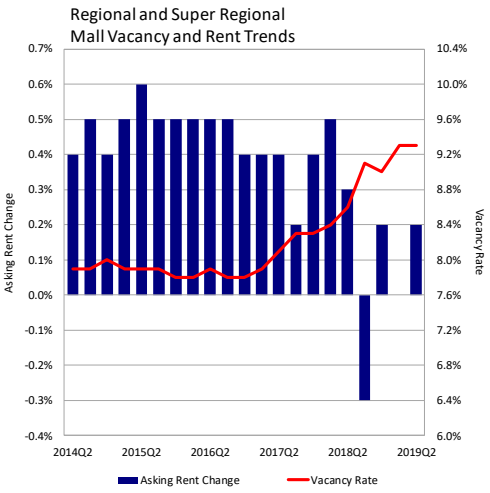
Mall Vacancies Remain Elevated

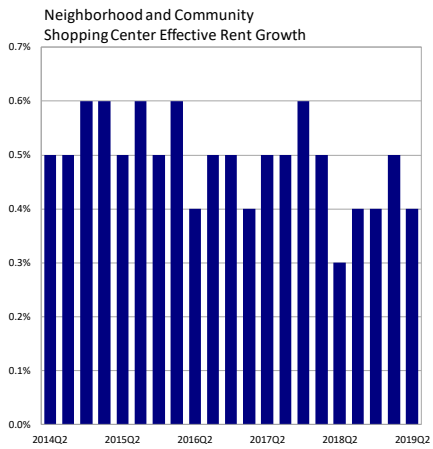


Store closures continued over the second quarter for retailers including Sears, JC Penney, Macy's and more. The national mall vacancy rate was unchanged at 9.3% this quarter, close to the cyclical peak of 9.4% in 2011. One year ago, the rate was 8.6%. Is there a silver lining in all of this? Perhaps this: that store closure announcements have not mapped directly and proportionally into a deterioration in mall occupancies. For example, plenty of Sears stores are located in owner-occupied properties, so are not part of the Reis Mall aggregate statistics. Our statistics capture the Sears store closures that are leased and part of the mall inventory.

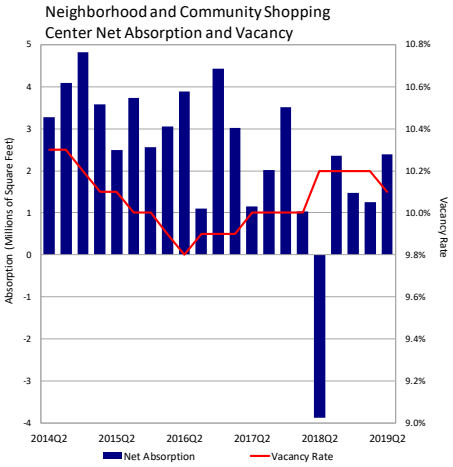
That offers cold comfort for the retail sector as a whole, given how slow this recovery has been. All this despite of the fact that as of July, the current economic expansion broke a new record as the longest in recorded history. The average mall asking rent was up 0.2% in the second quarter. Since the second quarter of 2018, the average mall rent increased $0.08 per SF, or a mere 0.2%.

Neighborhood and Community Shopping Centers

On a brighter note, the neighborhood and community shopping sector actually saw a slight decline in vacancy, from 10.2% last quarter to 10.1%. Like regional malls, store closures in this category have not noticeably affected smaller stores in these retail centers. Our internal leasing data shows a number of new occupants in these centers that include a number of fitness centers, grocery stores and trampoline parks filling spaces vacated by old Sears and other big box stores.



Construction in the neighborhood and community shopping center space was low at 1.5 million SF, down from 2018's quarterly average of 2.4 million SF, but still slightly higher than the 1.4 million SF added last quarter. In the second quarter of 2018, construction was 2.1 million SF. Developers recognize the structural changes in the retail sector, and lenders do as well. There is little incentive for much development of new retail in this ever changing retail climate. In all of 2018, only 9.4 million SF was added to inventory, which was 38% lower than the 15.2 million SF added in 2017. Moreover, there is little in the way of a pipeline of new construction. This should keep vacancy rates from increasing in the coming years.

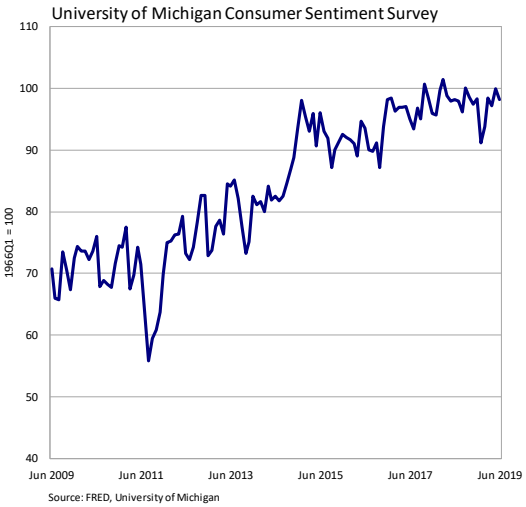


The average neighborhood and community shopping center asking rent increased 0.4% in the second quarter. The average effective rent that nets out landlord concessions also increased 0.4%. Both rates were on pace with the average quarterly growth rates over the last two years. At $21.39 per SF (asking) and $18.73 per SF (effective), the average rents have increased 1.7% since the second 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 met-

Second Quarter 2019 Market Performance
Improving Fundamentals / Flat or Declining Fundamentals

	Absorption	Occupancy	Effective Rent
Q2 2019	54 + / 26	38 ↑ / 42	61 ↑ / 19
Q1 2019	42 + / 38	34 ↑ / 46	60 ↑ / 20
Q4 2018	47 + / 33	33 ↑ / 47	62 ↑ / 18
Q3 2018	47 + / 33	33↑ / 47	66 ↑ / 14
Q2 2018	22 + / 58	18 ↑ / 62	56 ↑ / 24

Figures are based on 80 metro markets.



ros, many of which incurred declines as detailed below.

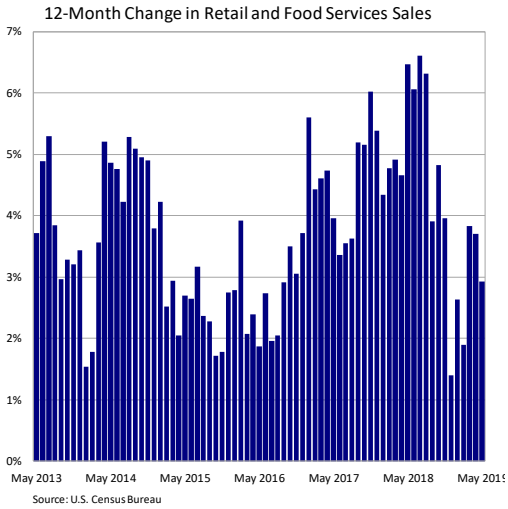
Statistics by Metro

The metro level statistics show fewer metros, 26 of 80, with an increase in vacancy for the quarter, down from 32 metros last quarter. Metros with the highest vacancy rate increase include Columbia, Charleston, San Antonio, New Orleans and Birmingham. Metros that saw the biggest decline in vacancy include Chattanooga, Tacoma, Colorado Springs, Fort Lauderdale and Greensboro/Winston-Salem.

Rent growth was healthy in a number of metros, as eight saw rent growth of 1% or more in the quarter. Metros with the highest effective rent growth were Seattle, Nashville, Sacramento, Oakland-East Bay and Louisville. However, eighteen metros posted an effective rent decline in the quarter including Little Rock, Kansas City, Omaha, Lexington and St. Louis.

Employment statistics again mirror these numbers as 57 of 80 metros show a year-over-year decline in retail employment based on data through May. Last quarter, 59 metros showed a decline in retail jobs. Metros with the highest growth in retail jobs include Charleston, Colorado Springs, Syracuse, Columbia and Sacramento. Metros with the highest losses include Columbus, New Haven, Tucson, Suburban Virginia and Pittsburgh.

Nationally, the U.S. has lost 47,100 retail jobs year to date, a loss of 0.3%. Losses were heaviest in department stores (-2.7%), clothing stores (-1.6%) and health and personal care stores (-1.6%).



Nevertheless, the retail sales statistics show health year-over-year growth of 2.9% (for January through May. Restaurant sales have grown 4.3%. Some categories show sales declines including department stores (-4.1%), sporting goods, toys and hobby (-6.7%), and electronics (-4.3%). Building materials and garden equipment, grocery stores, clothing stores and health and personal care stores all show retail sales gains.

Outlook

The retail statistics show how the sector is still in the midst of evolving, with retail tenants all trying to figure out their optimal blend of 'omni-channel strategy' (brick and mortar along with online channels). In three of the last five quarters, the vacancy rate in either the national mall or neighborhood and shopping center categories has increased noticeably, and each quarter brings consistent news of more bankruptcies and/or more store closures.

There are, however, winners in this world of have and have not's. Properties that either have repositioned to add more fitness, entertainment and service-oriented tenants; or high-end malls that cater to customers that are less concerned about two-day free shipping and sales taxes, are doing relatively better. Overall, we expect to see low but steady positive net absorption and rent growth along with flat vacancy rates for both malls and neighborhood and community shopping centers over the next few quarters as the retail sector continues to struggle with the shift in shopping trends.