

US Shopping Center Sales Volume and Buying Trends - October 2020

The global COVID-19 pandemic surfaced in the United States in Mid-March. Federal, State, and local governments responded by issuing strict social distancing orders to curb the spread of the virus. The US retail market is facing hardships as the effects of the crisis continue to unfold. Pre-crisis, there was uncertainty surrounding the retail market as well. Given the rise in e-commerce, shopping patterns and preferences have changed, questioning the demand for brick and mortar retail, and multi-tenant shopping centers in particular.

Transaction volume decreased significantly, month over month, from December 2019 through April 2020. Volume increased from May through July, showing signs of optimism, before dropping off again. This report analyzes trends in investment sales in the United States shopping center market from January 2019 through October 2020.

National unemployment increased significantly since the start of 2020, from 3.6% in January to a peak of 14.7% in April. Job losses in the wholesale and retail trade sector were particularly significant. Since April, businesses have started to re-open and unemployment is showing signs of improvement.

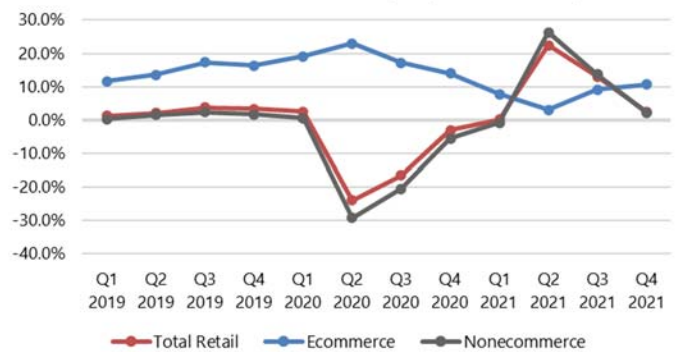
The pandemic has caused consumer spending habits to change dramatically, with ecommerce sparking growth in the industrial market and hitting the retail industry hard. Spending habits are not expected to normalize until the end of 2021.

Rent collection issues have been a major topic of discussion for retail properties, and shopping centers in particular. With stores closed for several months, and consumer preferences changing, this is a metric that will be watched closely going forward.

Unemployment Rate



Retail Sales Growth in the US, by Segment (% change)



Rent Collection Rates

| Sector | Apr-20 | May-20 | Jun-20 | Jul-20 | Aug-20 | Sep-20 | Trendline |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------|
| Industrial | 97.0% | 95.7% | 97.8% | 99.4% | N/A | N/A | |
| Office | 93.2% | 92.6% | 97.5% | 96.4% | N/A | N/A | |
| Apartments | 93.8% | 94.8% | 96.0% | 95.4% | 96.0% | 95.7% | |
| Healthcare | 90.2% | 89.9% | 94.8% | 95.2% | N/A | N/A | |
| Retail | | | | | | | |
| Free standing | 72.6% | 70.0% | 79.5% | 90.0% | 90.5% | 94.9% | |
| Shopping center | 50.3% | 49.3% | 60.9% | 72.8% | 80.2% | 81.6% | |

Source: PwC Commercial Real Estate Valuation / NAREIT

Overview

We tracked the number of monthly shopping center sales recorded in all 50 states, over a period beginning in January 2019 through October 2020. The analysis is segmented by type of center and includes only multi-tenant properties. With bankruptcies and store closures increasing, investors are focusing capital on distressed assets and opportunistic targets. Even leading into the crisis, shopping centers were viewed as a relatively risky property type, and the ongoing crisis is perpetuating this trend. Originally focused on traditional retail use, shopping centers are looking at more work, play, live uses, and interim uses such as drive-through movie theaters, as the outlook for dry retail is grim.

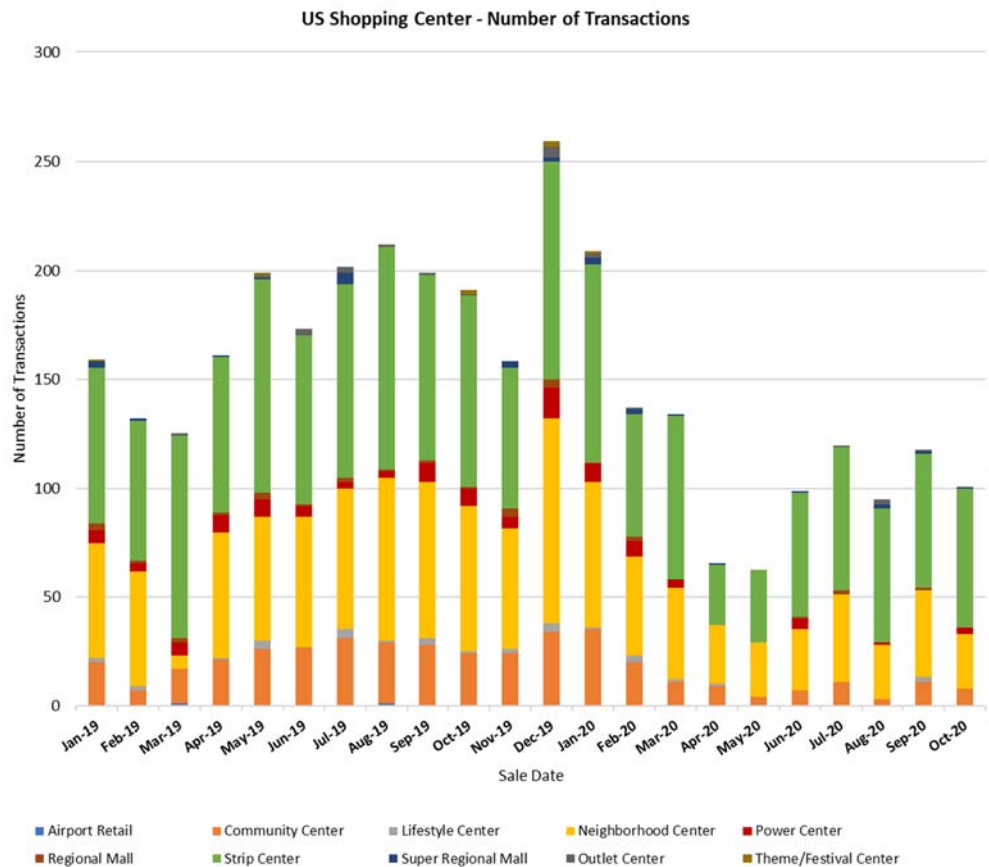
Number of Sales Transactions

Over the prior 22-month period, as of October 2020, there were a total of 3,081 transactions. Approximately 47% of these transactions are contained in the "Strip Center" category, roughly 34% are contained in the "Neighborhood Center" category, and nearly 13% of them are contained in "Community Center" category.

| Historical Transaction Volume - US Shopping Center | | | | | | | | | | | | | | | | | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-----------|-----------|-----------|------------|-----------|------------|------------|--------------|---------------|
| Number of Transactions | Jan-19 | Feb-19 | Mar-19 | Apr-19 | May-19 | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 | Apr-20 | May-20 | Jun-20 | Jul-20 | Aug-20 | Sep-20 | Oct-20 | Total | % of Total |
| Airport Retail | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 0.1% |
| Community Center | 20 | 7 | 16 | 21 | 26 | 27 | 31 | 28 | 28 | 24 | 24 | 34 | 35 | 20 | 11 | 9 | 4 | 7 | 11 | 3 | 11 | 8 | 405 | 12.2% |
| Lifestyle Center | 2 | 2 | 0 | 1 | 4 | 0 | 4 | 1 | 3 | 1 | 2 | 4 | 1 | 3 | 1 | 1 | 0 | 0 | 0 | 2 | 0 | 0 | 32 | 1.0% |
| Neighborhood Center | 53 | 53 | 6 | 58 | 57 | 60 | 65 | 75 | 72 | 67 | 56 | 94 | 67 | 46 | 42 | 27 | 25 | 28 | 40 | 25 | 40 | 25 | 1,081 | 32.6% |
| Power Center | 6 | 4 | 6 | 8 | 8 | 5 | 3 | 3 | 9 | 8 | 5 | 14 | 9 | 7 | 4 | 0 | 0 | 5 | 0 | 1 | 0 | 3 | 108 | 3.3% |
| Regional Mall | 3 | 1 | 2 | 1 | 3 | 1 | 2 | 1 | 1 | 1 | 4 | 4 | 0 | 2 | 0 | 0 | 0 | 1 | 2 | 0 | 1 | 0 | 30 | 0.9% |
| Strip Center | 71 | 64 | 93 | 71 | 98 | 77 | 89 | 102 | 85 | 87 | 64 | 100 | 91 | 56 | 75 | 28 | 34 | 57 | 66 | 62 | 62 | 64 | 1,596 | 48.2% |
| Super Regional Mall | 3 | 1 | 0 | 1 | 1 | 0 | 5 | 0 | 0 | 0 | 3 | 2 | 3 | 2 | 1 | 1 | 0 | 1 | 0 | 2 | 1 | 1 | 28 | 0.8% |
| Outlet Center | 0 | 0 | 1 | 0 | 1 | 3 | 3 | 1 | 1 | 1 | 0 | 5 | 2 | 1 | 0 | 0 | 0 | 0 | 1 | 2 | 1 | 0 | 23 | 0.7% |
| Theme/Festival Center | 1 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 2 | 0 | 2 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7 | 0.2% |
| Total # Transactions | 159 | 132 | 125 | 161 | 199 | 173 | 202 | 212 | 199 | 191 | 158 | 259 | 209 | 137 | 134 | 66 | 63 | 99 | 120 | 95 | 118 | 101 | 3,312 | 100.0% |
| % Change from Prior Month | - | -17.0% | -5.3% | 28.8% | 23.6% | -13.1% | 16.8% | 5.0% | -6.1% | -4.0% | -17.3% | 63.9% | -19.3% | -34.4% | -2.2% | -50.7% | -4.5% | 50.0% | 90.5% | -4.0% | 19.2% | -15.8% | - | - |

From December 2019 to May 2020, the number of transactions in the US shopping center market steadily declined. There were signs of activity returning in June and July, but volume has fluctuated in recent months. Levels are currently well below where they were pre-pandemic.

The pandemic has caused consumer spending habits to change dramatically, with ecommerce offering convenience and safety to consumers. Dry retail has suffered and will face a lot of questions in the near term, likely leading to revised store formats and greater use of in-store technology. Grocery anchored centers, and centers having "essential" services have fared better than most other segments.



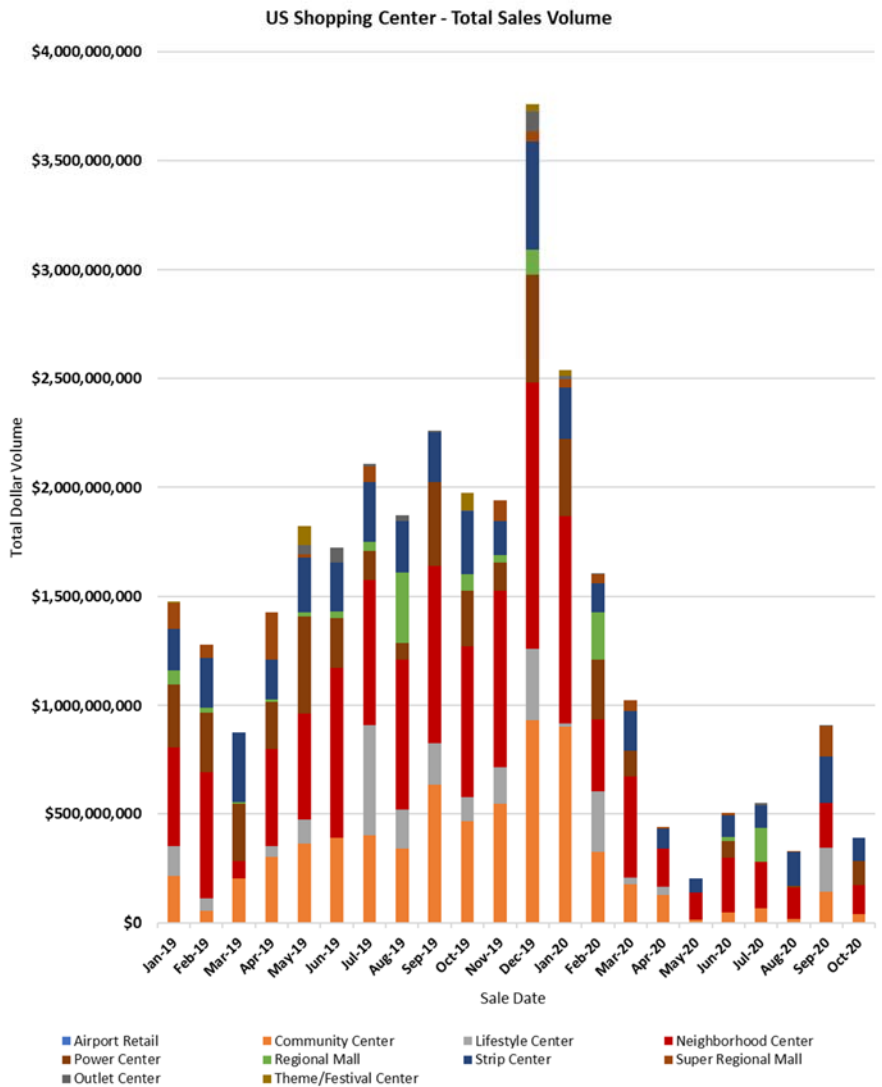
Dollar Volume of Sales Transactions

In 2019, the average monthly sales volume was approximately \$1.9 billion, with the peak occurring in December 2019 at \$3.8 billion. Comparatively, the average monthly sales volume in 2020 is roughly \$0.8 billion thus far, reflecting a decrease of approximately 55%. We tracked the dollar volume of monthly sales by center type as seen below.

| Historical Transaction Volume - US Shopping Center (in Millions) | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|-----------|-----------|---------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------|---------|---------|---------|---------|---------|---------|------------|------------|------|
| \$ Volume of Transactions | Jan-19 | Feb-19 | Mar-19 | Apr-19 | May-19 | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 | Apr-20 | May-20 | Jun-20 | Jul-20 | Aug-20 | Sep-20 | Oct-20 | Total | % of Total | |
| Airport Retail | \$0.0 | \$0.0 | \$2.4 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$3.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$5.3 | 0.0% |
| Community Center | \$215.0 | \$52.7 | \$201.6 | \$300.9 | \$363.8 | \$388.5 | \$402.0 | \$338.0 | \$630.9 | \$466.6 | \$546.8 | \$932.0 | \$901.9 | \$322.8 | \$177.2 | \$128.3 | \$16.8 | \$45.3 | \$67.1 | \$21.3 | \$142.6 | \$40.4 | \$6,702.8 | 21.6% | |
| Lifestyle Center | \$134.8 | \$59.6 | \$0.0 | \$49.9 | \$109.4 | \$0.0 | \$508.3 | \$179.0 | \$191.5 | \$108.0 | \$166.3 | \$326.6 | \$14.8 | \$279.0 | \$27.6 | \$38.3 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$200.9 | \$0.0 | \$2,393.9 | 7.7% | |
| Neighborhood Center | \$455.7 | \$579.2 | \$79.7 | \$446.6 | \$488.4 | \$784.8 | \$666.6 | \$690.6 | \$819.5 | \$696.9 | \$813.8 | \$1,222.7 | \$953.0 | \$335.4 | \$465.0 | \$172.1 | \$119.6 | \$251.5 | \$213.6 | \$141.2 | \$205.3 | \$133.7 | \$10,734.8 | 34.6% | |
| Power Center | \$291.8 | \$274.2 | \$262.9 | \$218.3 | \$445.5 | \$226.3 | \$132.6 | \$75.6 | \$381.8 | \$255.4 | \$126.9 | \$497.4 | \$352.0 | \$272.5 | \$116.9 | \$0.0 | \$0.0 | \$76.7 | \$0.0 | \$4.8 | \$0.0 | \$109.9 | \$4,121.3 | 13.3% | |
| Regional Mall | \$62.3 | \$24.7 | \$4.7 | \$12.6 | \$21.4 | \$30.1 | \$41.0 | \$325.0 | \$0.0 | \$75.0 | \$35.8 | \$115.7 | \$0.0 | \$218.8 | \$0.0 | \$0.0 | \$0.0 | \$21.0 | \$153.0 | \$0.0 | \$1.6 | \$0.0 | \$1,142.6 | 3.7% | |
| Strip Center | \$190.3 | \$229.0 | \$322.1 | \$181.9 | \$249.7 | \$225.6 | \$272.5 | \$234.6 | \$229.7 | \$288.4 | \$155.5 | \$493.7 | \$234.3 | \$132.2 | \$186.8 | \$90.6 | \$65.6 | \$95.6 | \$103.7 | \$155.5 | \$212.8 | \$106.5 | \$4,456.6 | 14.4% | |
| Super Regional Mall | \$120.8 | \$61.0 | \$0.0 | \$219.1 | \$16.6 | \$0.0 | \$74.1 | \$0.0 | \$0.0 | \$0.0 | \$95.7 | \$43.5 | \$41.4 | \$41.0 | \$52.3 | \$11.0 | \$0.0 | \$12.5 | \$0.0 | \$1.3 | \$141.3 | \$0.0 | \$931.6 | 3.0% | |
| Outlet Center | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$39.8 | \$68.0 | \$12.0 | \$27.8 | \$8.3 | \$4.4 | \$0.0 | \$92.3 | \$11.8 | \$3.1 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$11.5 | \$0.0 | \$1.2 | \$0.0 | \$280.0 | 0.9% | |
| Theme/Festival Center | \$7.5 | \$0.0 | \$0.0 | \$0.0 | \$90.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$80.3 | \$0.0 | \$34.4 | \$27.9 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$240.0 | 0.8% | |
| Total Dollar Volume | \$1,478.1 | \$1,280.3 | \$873.4 | \$1,429.2 | \$1,824.7 | \$1,723.3 | \$2,109.1 | \$1,873.4 | \$2,261.6 | \$1,974.8 | \$1,940.8 | \$3,758.3 | \$2,537.1 | \$1,604.8 | \$1,025.8 | \$440.3 | \$202.0 | \$502.6 | \$548.9 | \$324.1 | \$905.7 | \$390.5 | \$31,008.8 | 100.0% | |
| % Change from Prior Month | - | -13.4% | -31.8% | 63.6% | 27.7% | -5.6% | 22.4% | -11.2% | 20.7% | -12.7% | -1.7% | 93.6% | -32.5% | -36.7% | -36.1% | -57.1% | -54.1% | 148.8% | 9.2% | -41.0% | 179.4% | -56.9% | - | - | |

The category with the highest transaction volume is in the "Neighborhood Center" category, which comprises approximately 35% of total dollar volume. There were 40 and 25 sales in this category in September and October 2020, respectively. The category that recorded the second highest amount of transaction volume was in the "Community Center" category, which comprises approximately 22% of total dollar volume. There were only eight sales in this category in October 2020, reflecting a large drop off compared to 2019.

| Total Dollar Volume - US Shopping Center | |
|--|-----------------|
| Jan-19 | \$1,478,119,852 |
| Feb-19 | \$1,280,303,600 |
| Mar-19 | \$873,381,448 |
| Apr-19 | \$1,429,183,560 |
| May-19 | \$1,824,702,251 |
| Jun-19 | \$1,723,251,643 |
| Jul-19 | \$2,109,059,231 |
| Aug-19 | \$1,873,425,430 |
| Sep-19 | \$2,261,587,298 |
| Oct-19 | \$1,974,829,385 |
| Nov-19 | \$1,940,827,765 |
| Dec-19 | \$3,758,274,114 |
| Jan-20 | \$2,537,120,959 |
| Feb-20 | \$1,604,785,887 |
| Mar-20 | \$1,025,788,443 |
| Apr-20 | \$440,291,551 |
| May-20 | \$202,011,377 |
| Jun-20 | \$502,630,240 |
| Jul-20 | \$548,919,988 |
| Aug-20 | \$324,128,478 |
| Sep-20 | \$905,748,000 |
| Oct-20 | \$390,472,606 |
| Min | \$202,011,377 |
| Max | \$3,758,274,114 |
| 2019 Ave | \$1,877,245,465 |
| 2020 Ave | \$848,189,753 |



May 2020 demonstrated the lowest volume of sales over the entire analysis period. Dollar volume has been fluctuating since June. Volume in October 2020 was \$390 million, approximately 80% below the volume seen in October 2019, one year prior. Market participants will be eager to see what trend develops going forward.

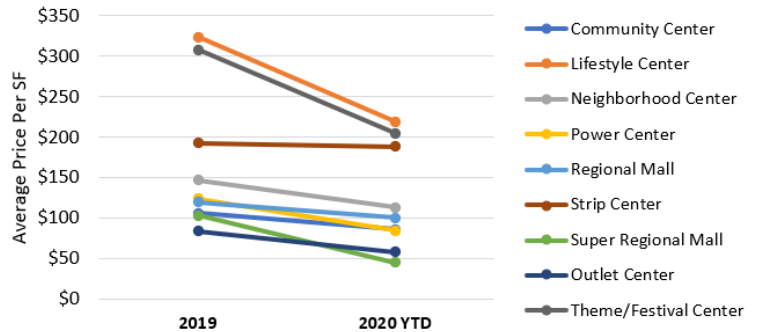
Price Per Square Foot

In 2019, the average price per square foot was \$157, which is higher than 2020 YTD figures at an average price per square foot figure of \$111. For all property types, overall price per square foot has dropped 29.3% when comparing 2019 to 2020.

Price Per Square Foot from 2019 to 2020

| Average \$ Per SF | 2019 | 2020 YTD | % Change |
|-----------------------|-------|----------|----------|
| Airport Retail | \$142 | N/A | N/A |
| Community Center | \$106 | \$86 | -19.1% |
| Lifestyle Center | \$324 | \$219 | -32.3% |
| Neighborhood Center | \$147 | \$113 | -22.8% |
| Power Center | \$124 | \$85 | -31.5% |
| Regional Mall | \$120 | \$100 | -16.3% |
| Strip Center | \$192 | \$188 | -2.1% |
| Super Regional Mall | \$103 | \$45 | -56.2% |
| Outlet Center | \$84 | \$58 | -31.1% |
| Theme/Festival Center | \$308 | \$205 | -33.4% |
| Average | \$157 | \$111 | -29.3% |

US Shopping Center - Price Per Square Foot



The "Super Regional Mall" category demonstrated a 56.3% decrease in average price per square foot from 2019 to 2020 YTD, the most significant decrease seen in the various shopping center types. Strip Centers decreased only 2.1% in average price per square foot, but every single segment is seeing declines compared to one year prior.

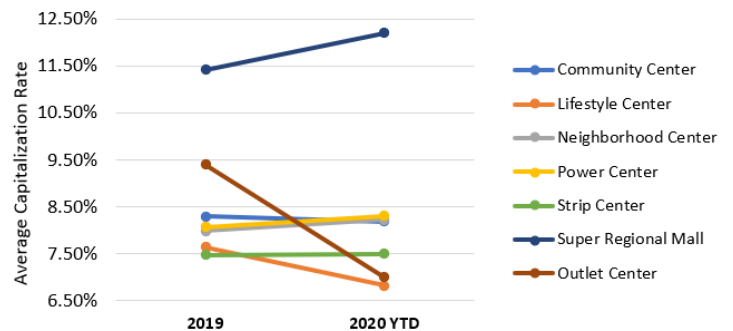
Average Capitalization Rates

In 2019, the average cap rate for the US shopping center market was 8.42%. This figure dropped to 8.16% in 2020, a drop of roughly 26 basis points. The biggest decrease is seen in the "Outlet Center" category, demonstrating a drop of approximately 240 basis points.

Average Capitalization Rate from 2019 to 2020

| Average OAR | 2019 | 2020 YTD | Basis Point Change |
|-----------------------|--------|----------|--------------------|
| Airport Retail | 8.47% | N/A | N/A |
| Community Center | 8.30% | 8.19% | -10.92 |
| Lifestyle Center | 7.64% | 6.83% | -81.93 |
| Neighborhood Center | 7.99% | 8.22% | 23.34 |
| Power Center | 8.07% | 8.30% | 23.08 |
| Regional Mall | 12.00% | N/A | N/A |
| Strip Center | 7.48% | 7.50% | 2.37 |
| Super Regional Mall | 11.43% | 12.20% | 77.50 |
| Outlet Center | 9.40% | 7.00% | -239.67 |
| Theme/Festival Center | 5.00% | N/A | N/A |
| Average | 8.42% | 8.16% | -25.97 |

US Shopping Center - Capitalization Rates



Given the large amount of uncertainty, price discovery has proven to be an area of difficulty and landlords may wait for the dust to settle before they trade their assets at low valuations. Given the current climate, which has been marked by rent collection issues, and vacancy increases, we could see cap rates push upwards. The magnitude to which cap rates move is still up in the air and market participants will be eager to see what the data shows, as more transaction information becomes available.



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SOURCE: eMarketer, CoStar, STDB, US Bureau of Labor Statistics, The Motley Fool and Marshall & Stevens