

A photograph of a modern glass skyscraper at night, illuminated from within. The building is set against a dark background with a grid of white lines overlaid on it, creating a technical or architectural feel.

September 2019 / Research Report THE VALUE PROPOSITION OF GROCERY-ANCHORED RETAIL

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1 / Is the Demise of Retail Real?

It is hard to deny the impact of technology on our economy in the past decade. While technology has changed all major property sectors, the rise of e-commerce is arguably one of the most noticeable shifts in consumer spending. As commercial real estate investors, it is certainly one we spend a lot of time reflecting on and debating. But, is the “demise of retail” a reality or is this headline overblown?

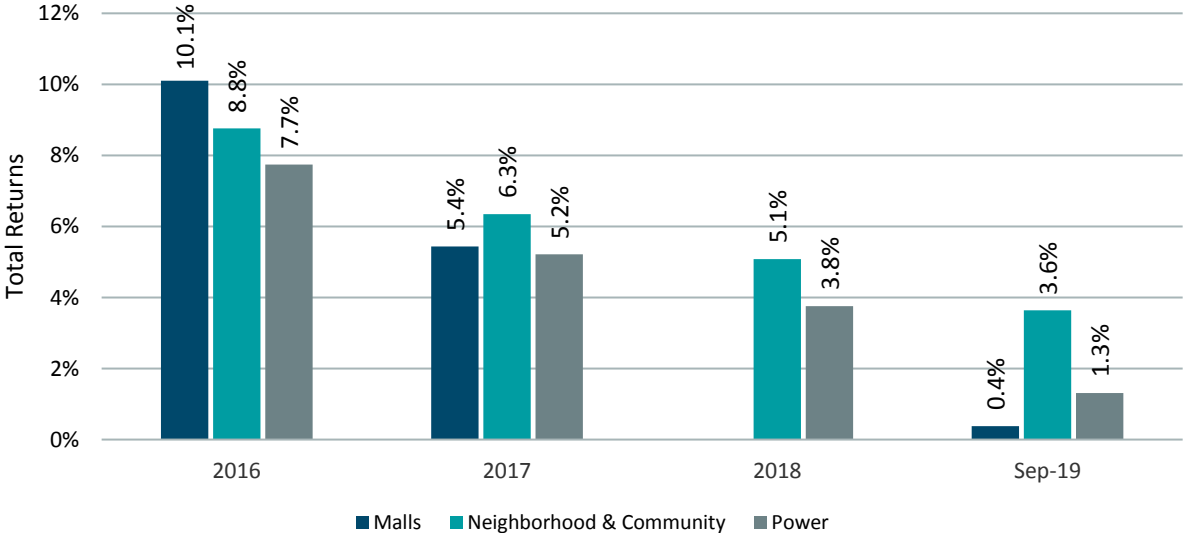
We argue that concerns over the end of retail paints this real estate sector with too broad of a brush. While some segments of the retail market may be contracting, we believe in the long- term stability of neighborhood and community centers as a steady income play.

While apparel-heavy malls have been directly impacted by e-commerce, the same has not necessarily been true of neighborhood and community centers with grocery, fitness, food, healthcare, and other necessity and service tenants. These retail property types are often referred to as providing for consumers’ “daily needs” and have shown durable customer traffic trends in the face of sluggish retail topline numbers. In addition to outperforming retail generally, we view the neighborhood and community center sub-sector of retail as defensive late cycle. Historically speaking, segments of our economy that are non-discretionary tend to outpace as the cycle wanes. Mature retail centers with the right non-discretionary spending tenants like grocers, pharmacies and other daily needs could exhibit similar resilient qualities.

1.1 Neighborhood and community centers in focus

The investment thesis for these types of daily-needs centers is that many of the goods and services offered by this segment are difficult, if not impossible, to consume online. Though grocery has seen some online sales, they are mostly centered on the store, where the vast majority of sales still occur. Meanwhile, healthcare and fitness seem as though they will be relatively immune from digitization trends. And in some markets, these retail centers are community hubs and mainstays of neighborhoods or towns, potentially providing more reliable traffic when compared to other areas of retail.

MALLS HAVE BEEN HIT HARDEST



Source: NCREIF as of September 30, 2019.

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2 / Key Considerations: Choosing the Right Neighborhood and Community Center

2.1 Fundamentals for neighborhood centers remain healthy

Neighborhood and community centers have largely insulated themselves from the challenges of the e-commerce trend and maintain steady performance, when compared to other types of retail real estate through various points in the economic cycle. Fundamentals for neighborhood centers remain healthy. New supply has remained disciplined, with deliveries well below historical norms. At 8.7%, the current availability rate for the overall U.S. remains below its 10-year historical average of 11.0% as of the third quarter of 2019, per CBRE-EA.¹ Over the last two years, neighborhood and community centers have been an outperformer when compared to the broader retail sector.

The impact from e-commerce on the world of real estate has been monumental. However, for those focused on necessity-based retail, it has been far less intense. Obviously, it isn't quite as simple as just buying any and all neighborhood and community retail, as location, demographic trends and tenant quality remain as essential as ever. But given the broad macro landscape in retail real estate today, the right neighborhood and community retail can be a compelling investment.

¹Source: CBRE-Economic Advisors as of September 30, 2019.

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