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Midwest Retail Investment Report

Third Quarter - 2021

Market Outlook

Heading into the final quarter of 2021, we are seeing the resilience of retail sales as volume returns and cap rates return to pre-pandemic levels. With markets across the Midwest returning to normal earlier this year, and the absence shutdowns caused by the delta variant, optimism in the retail market continues across the sector.

Now more than ever, cheap rates and massive cash stockpiles are searching for yield as cap rates continue to plumet. As rates start to increase, we anticipate it will only increase the urgency in which investors look to close deals and place capital quickly.

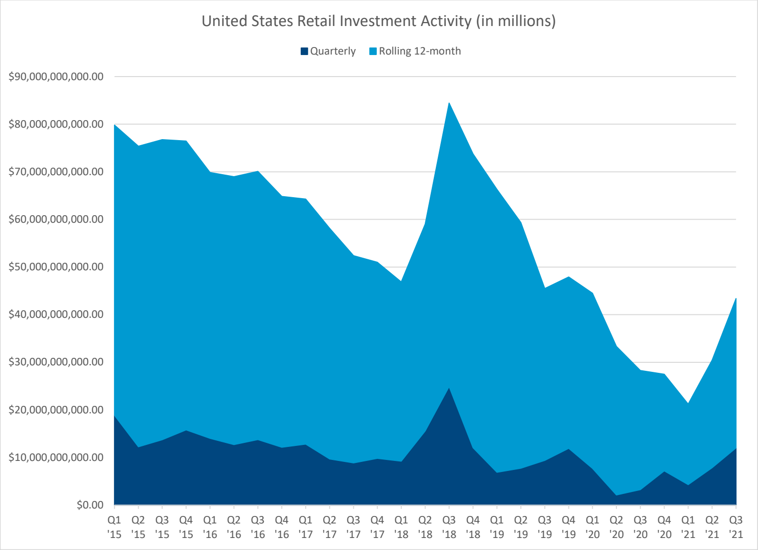
Third Quarter **Takeaways**

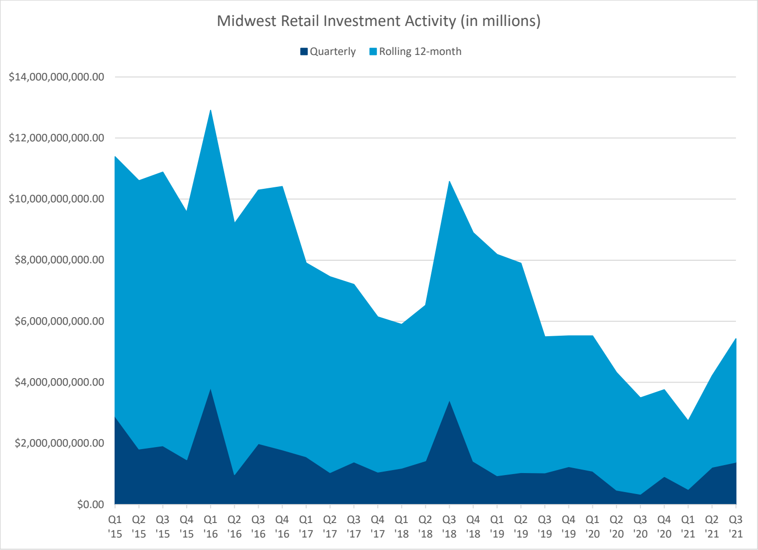
Investment Activity: Retail investment activity is gradually increasing with shopping centers starting to trade more frequently. Quarterly sales volume for National and Midwest markets have nearly tripled since 2021 Q1.

Current Inventory: Active listings remain lower than pre-pandemic levels, but we've seen a big increase from the last 2-3 quarters. With buyers getting more aggressive and less COVID discounts, sellers are now more willing to list properties.

Cap Rate Compression: With less inventory on the market, but money to be spent by investors, cap rates are continuing to compress. Although, according to the data, cap rates for Midwest anchored centers are an outlier and have jumped significantly since Q1 2021. Over the next 2 quarters, we expect those cap rates to return to pre-pandemic levels as well.

Tenants: Unanchored tenants, such as services and nonessentials, were hit hard during the pandemic. However, they have started to recover and are receiving more positive interest from the investment community.





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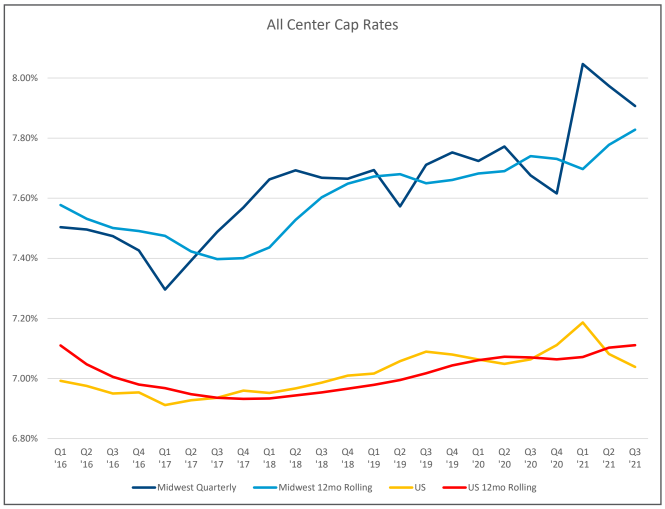
Retail **Debt Market**

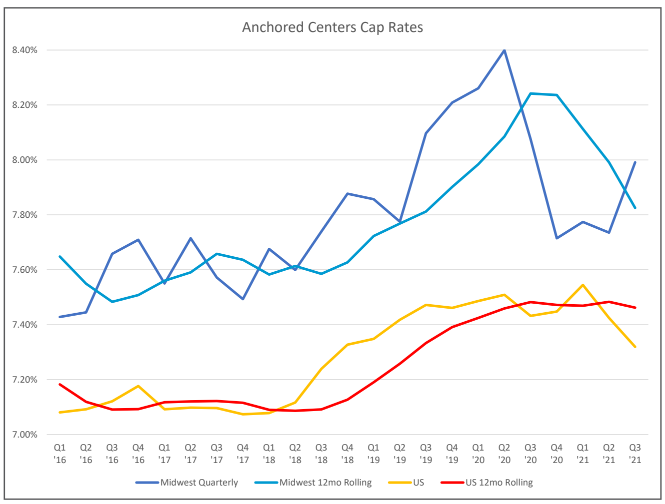
The retail debt market continues to open up across most lending platforms as confidence surges back into the market. Loan to value ratios lenders are offering continue to increase into the mid 70% range on average for the majority of retail deals.

Interest rates, while still near all time lows, have finally started to increase closer to 4.0% causing more urgency for investors to put long term debt on now because experts don't expect them to return to the mid 3.0%'s in the near term.



Overall Retail Center Cap Rates:

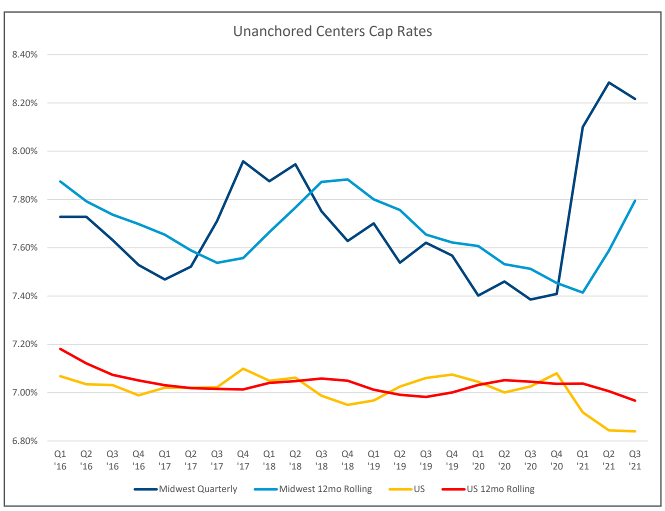
• Cap rates for National and Midwest markets have both decreased by nearly the same percentage since Q1 2021. The Midwest overall Cap Rate of 7.91% is still slightly higher than the National cap rate of 7.04%, emphasizing that investors are continuing to seek Midwest properties for their superior cash flow opportunities.



Anchored Center Cap Rates:

• National cap rates for anchored centers are continuing to decline, while Midwest cap rates increased a quarter point over the last quarter.

• Grocery anchored centers continue to be a hot commodity for retail investors who desire stable rents, a strong traffic driver, and less vulnerability to e-commerce.



Unanchored Center Cap Rates:

• The National market cap rate for unanchored centers remained constant at 6.84% from Q2 to Q3, compared to the Midwest market which slightly decreased from Q2 at 8.28% to 8.22% in Q3.

• The Midwest market cap rate for unanchored centers peaked at an all-time high during the pandemic as investors were more interested in grocery anchored or essential use anchored property. Now that Midwest tenants are starting to recover, cap rates are anticipated to return to pre-pandemic levels.

Midwest Buyer and Seller **Profiles**

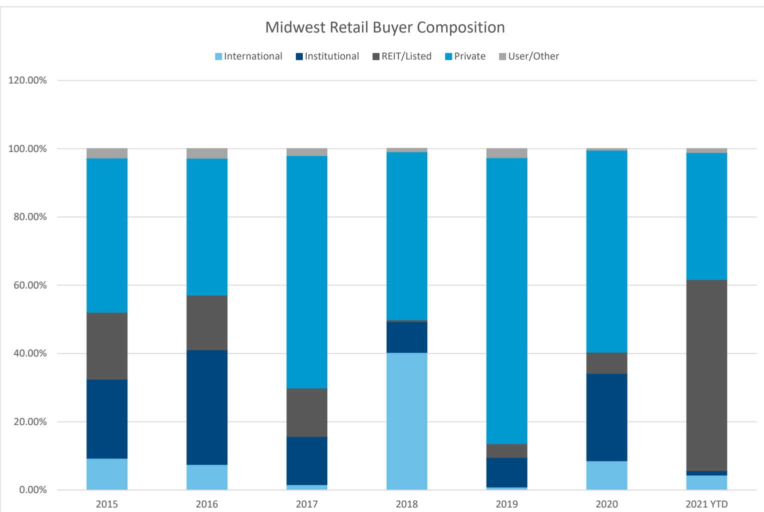
• ***International:*** No surprise that international investor groups are still cautious in both markets, as this has been a trend before the pandemic. Although they have increased representation in the buyers' market, significantly more than institutions, they have only slightly increased in the sellers' market.

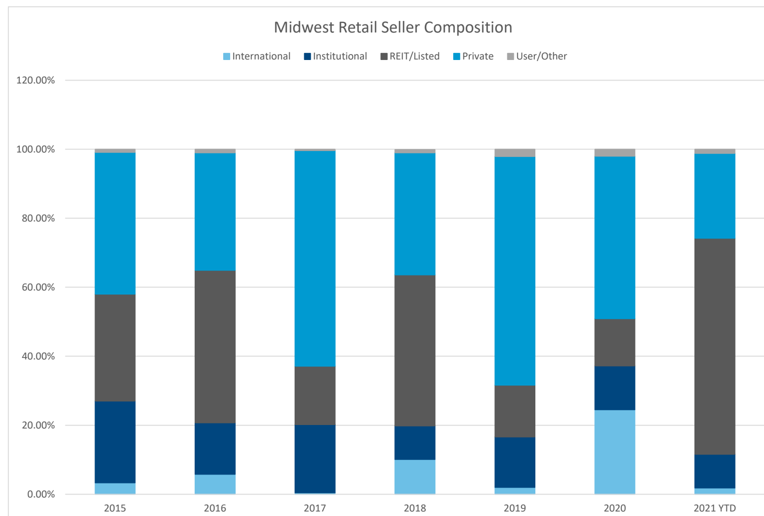
• ***Institutional:*** Institutional investors continue to be reserved on the buyer side with very little action, but action has increased on the seller side since Q1.

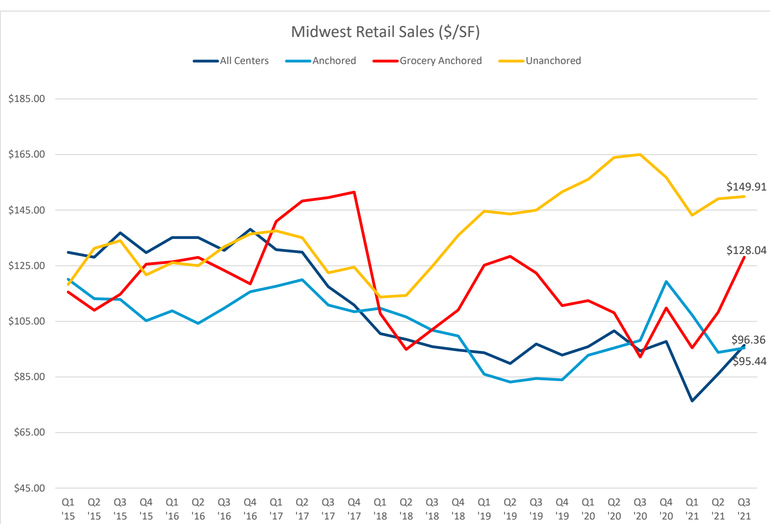
• REITs: REITs remain a major player in the retail buyers' market and sellers' market but are less of a share in the sellers' market due to Institutions and Privates investors stepping up this quarter.

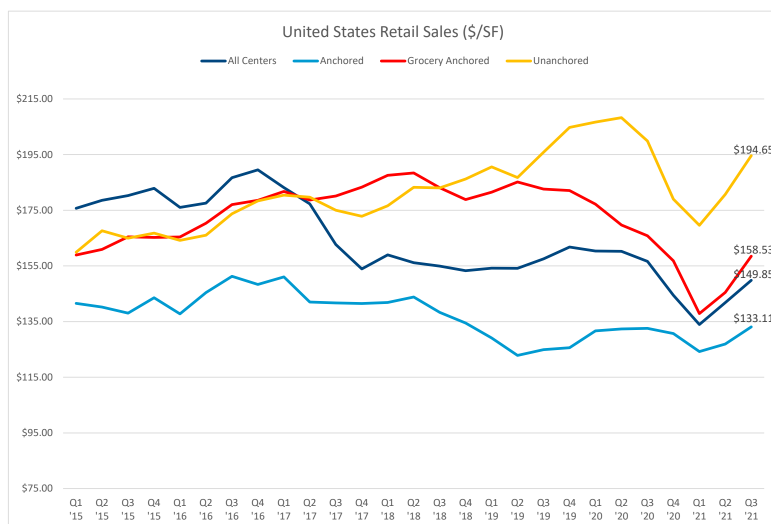
• Private: Private investors have started to enter the buyers' and sellers' markets as they are second to REITs in composition for both markets

• Overall: Perceived risk for buying retail investments has decreased as uncertainty in the market has subsided. As a result, demand has increased significantly, and sellers no longer need to consider pandemic discounts.









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