Colliers

# MIDWEST retail investment REPORT

Year End - 2022

CHANEY
INVESTMENT TEAM
Midwest Retail Experts

# **Market** Overview

Colliers

Unemployment Rate: **3.6%**

CPI: **6.0**

Median Home Sales Price: **$356,600**

## Market Outlook

Interest Rates and Inflation continued to dominate the headlines to end 2022. The Federal funds rate increased 425 basis points in 2022, the largest increase since the early 1980s, bringing interest rates to their highest level in 15 years. The Fed is expected to continue raising rates in 2023 with inflation rates still much higher than the target of rate of 2.0%.

Retail investment sales volume in quarter four of 2022 was directly affected by these increases and fell to the lowest level since the middle of the pandemic in quarter three of 2021. This trend is expected to continue through the first half of 2023, but many investors and real estate firms expect the second half of 2023 to see an increase in sales volume as rates are expected to stabilize and the reversal in the direction of inflation becomes more clear.

## Fourth Quarter Takeaways

***Investment Activity:***
Retail investment saw a significant but expected decrease in Q4 nationally and in the Midwest. This decrease was caused by the cost of capital and fear of the unknown as it relates to interest rates and inflation.

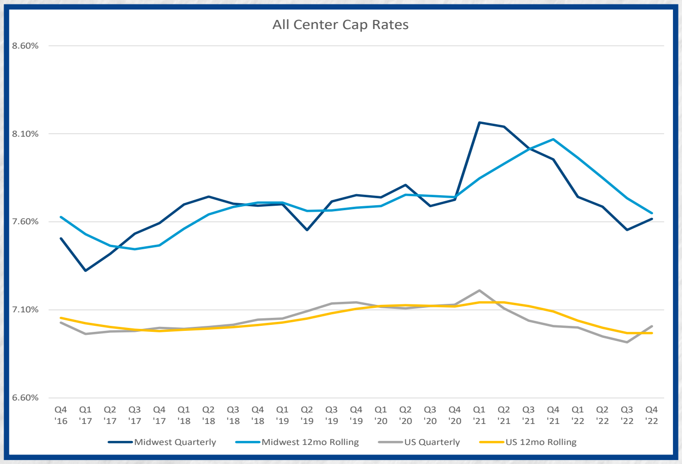
***Current Inventory:***
The retail investment market continues to have below average inventory which contributed to a continued decrease in sales in Q4.

***Cap Rate Compression:***
Cap rates remained steady and saw a much smaller magnitude change than the 125-basis point increase in interest rates in the quarter.

***Pricing Growth:***
Per square foot prices saw less than $4psf decreases nationally while the Midwest saw decreases of $3-$12psf. Anchored centers in the Midwest saw the largest decrease of $10psf or 9% in Q4 with grocery anchored centers specifically seeing a $12psf decrease.

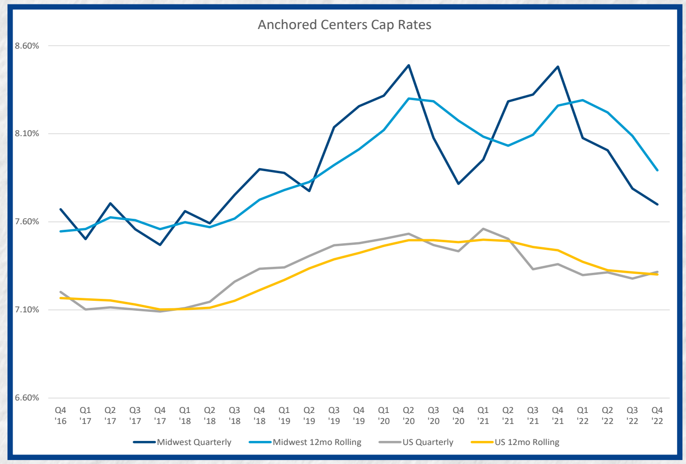
## Debt

Debt and the cost of capital continues to be a driving factor in the retail investment market. Most debt quotes are coming back at least 200 bps higher than a year previously while quotes that include a variance based on the 10-year UST have seen high volatility up and down over the last 6 months. Debt will continue to be a primary focus for investors throughout 2023 and beyond as the Fed looks to tame inflation by raising interest rates.



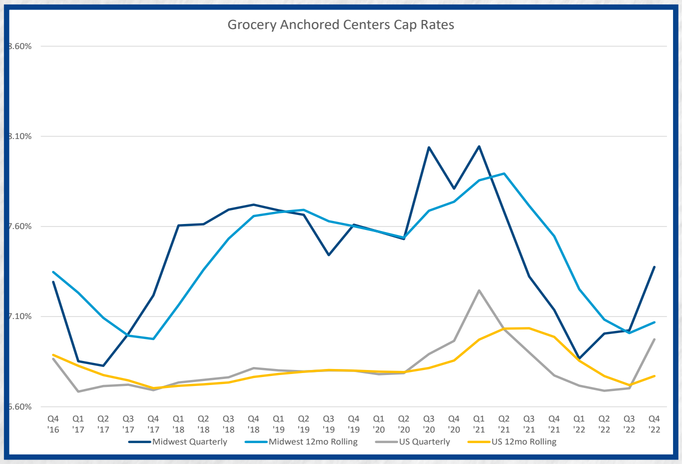

## Overall Retail Center Cap Rates:

Cap rates for centers Nationally increased 9 basis points (bps) and the Midwest saw an increase of 7 bps in Q4 and 12 month rolling cap rates decreased 8 bps in the Midwest and were unchanged nationally.



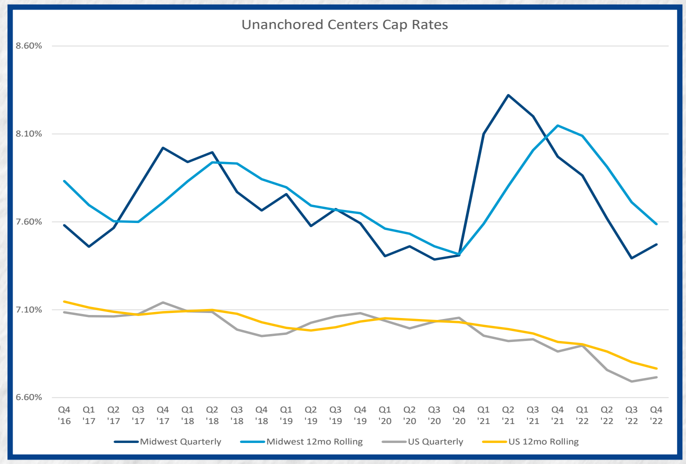

## Anchored Center Cap Rates:

Cap rates for anchored centers nationally increased 5 bps while cap rates for anchored centers in the Midwest decreased 9 bps. The cap rate spread between Midwest centers and national centers continued to close in Q4 as anchored Midwest center cap rates are down 75 basis points since their high in Q4 2021.



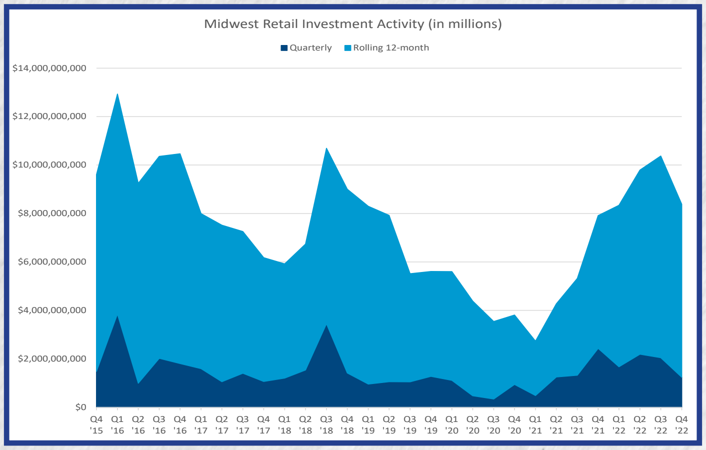

## Grocery Anchored Center Cap Rates:

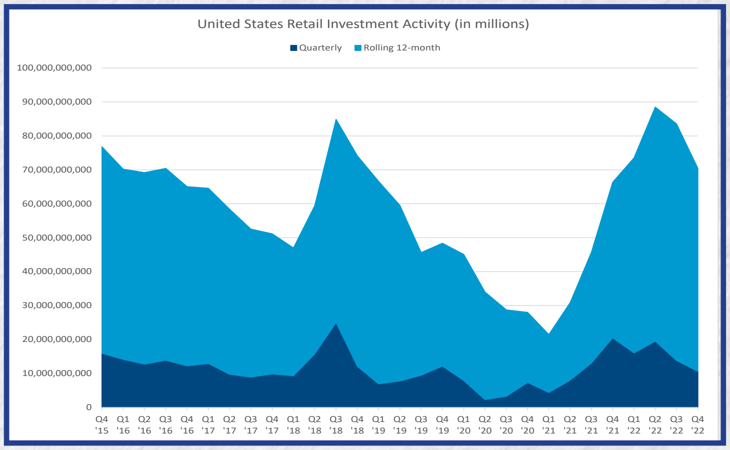
Cap rates for grocery anchored centers increased 27 bps nationally and 26 bps in the Midwest in Q4 causing an increase in the 12 month rolling cap rates by 5 bps and 6 bps, respectively. This is the first time since Q1 2021 that grocery anchored center cap rates have increased. The 12 month rolling cap rates nationally moved up from historic lows in Q3 to 6.77% which remains the lowest since Q4 2018. The 12 month rolling cap rates in the Midwest moved up from historic lows in Q3 to 7.07% which remains the lowest since Q4 2017.




## Unanchored Center Cap Rates:

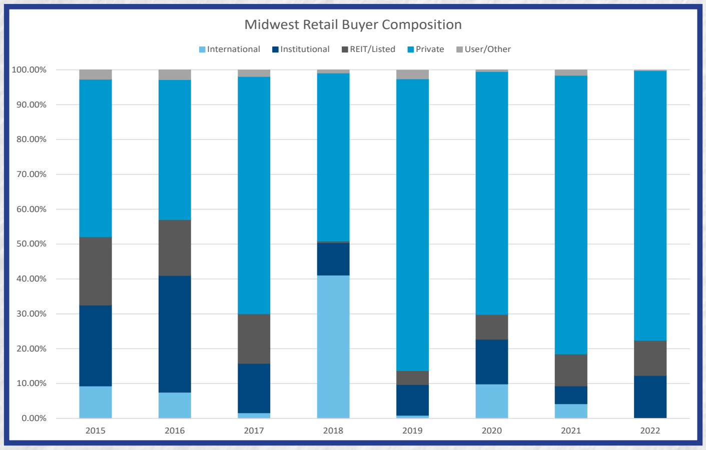
Cap rates for unanchored centers increased 8 bps in the Midwest and increased 3 bps nationally. This marks the first increase for either since 2021. Cap rates for unanchored centers nationally continued a 12 month rolling downward trend that began in Q1 2020 while cap rates for unanchored centers in the Midwest continued a 12 month rolling downward trend that began in Q4 2021.

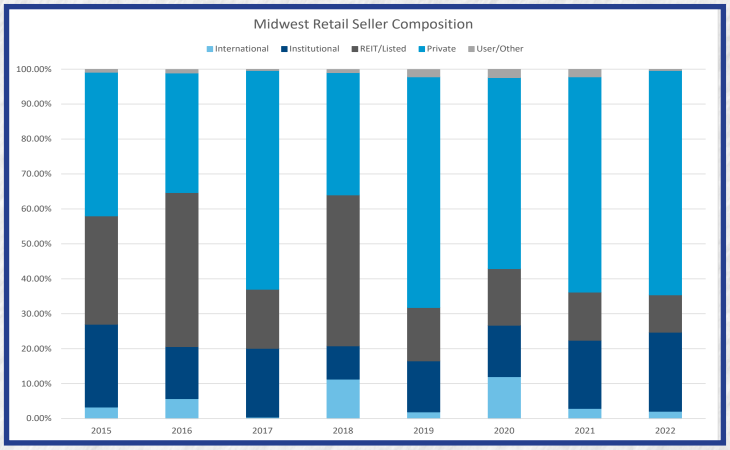



## Investment Activity:

Retail investment sales were down in the Midwest and nationally in Q4. Sales volume was still higher than it was during the pandemic which bodes well for investment volume moving forward in 2023. Midwest investment sales finished 2022 around $7.1 billion, $1.65 billion higher than 2021. National investment sales finished 2022 just shy of $59.9 billion, $14 billion higher than 2021. If the Fed begins to stabilize rates in 2023, as many experts expect, we anticipate retail investment volume will accelerate throughout the year and into 2024. 2021 investment sales saw a slow first half of the year with a flurry of activity in the second half of the year and 2023 is shaping up to be very similar.




## Composition Buyer/Seller:

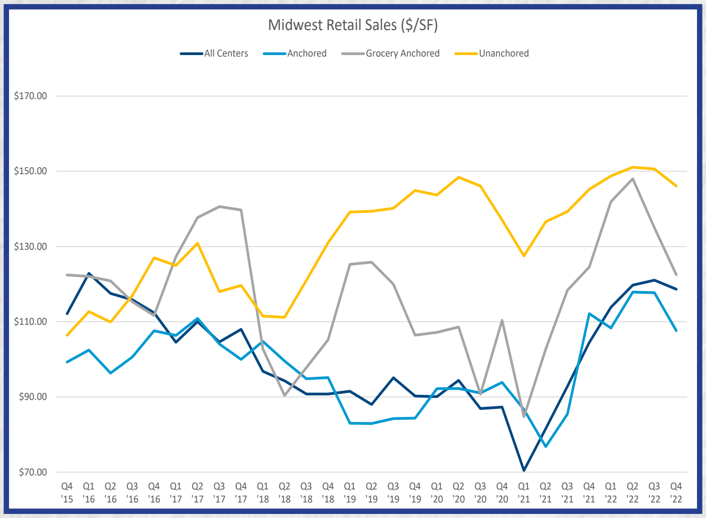
• International: International investors ended 2022 with their smallest representation since at least 2015 with only 0.20% of buyers being made up of international investors. Including 2022, international investors make up, on average, 9.34% of Midwest buyers per year since 2015. International sellers made up 2.10% of Midwest sellers in 2022 which is below the average of 4.95% of sellers in a year since 2015.

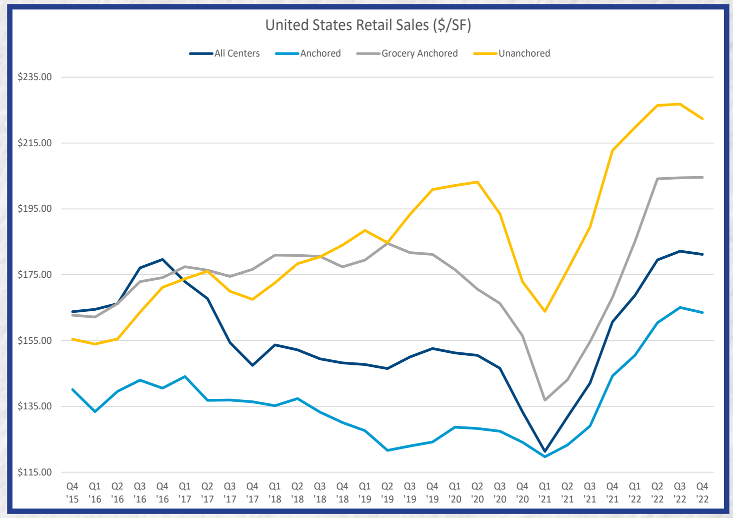
• Institutional: Institutional buyers and sellers were the second most active group in 2022 making up 12.10% and 22.60% respectively. Institutional buyers have made up on average 14.88% of buyers in the Midwest since 2015 and have made up on average 17.40% of buyers. Institutional sellers made up their highest percentage since 2015 when they made up 23.70% of sellers in the Midwest.

• REITs: REITs have the most similar makeup between buyers and sellers as they made up 10.10% of buyers and 10.7% of sellers. REITs were very consistent to the average as they make up on average 10.09% of buyers in the Midwest. However, REITs as sellers were less than half of their average makeup as they represent 23.90% of Midwest sellers on average since 2015 and made up their lowest percentage as sellers since before 2015.

• Private: Private investors made up by far the largest group of both buyers and sellers in the market in 2022 continuing a trend that has been in place since 2019. Private buyers made up 77.40% of buyers in the Midwest which is higher than their average of 64.05% of buyers in the Midwest since 2015. Private sellers made up 64.20% of sellers which is higher than their average makeup of 52.43% since 2015.

# **Comps** and Listings




## Price Per Square Foot:

Per square foot prices fell in the Midwest across the board with anchored centers falling by $10.09psf and specifically grocery anchored centers falling by $12.46psf. Unanchored centers per square foot prices fell by $4.54 and all centers overall fell by $2.40. These results were similar nationally as well with unanchored centers falling by $4.47psf and anchored centers falling by $1.57psf. All centers combined fell by $0.96psf. The outlier was grocery anchored centers increasing by $0.14psf. Although this was a very small increase, it continued an increasing trend established in Q1 2021 of grocery anchored centers increasing per square foot prices confirming many investors are still very interested in grocery anchored centers.

## Comps: On The Market

| Property Name | $ | Cap Rate | GLA | Occupancy | $ PSF | Major Tenants |
|---|---|---|---|---|---|---|
| Felbram Plaza | $12,000,000.00 | 8.13% | 182,257 | 98.00% | $65.84 | Dollar General, Dollar Tree, Aaron's, Shoppers World |
| North Dixie Plaza | $13,036,000.00 | 8.00% | 130,466 | 99% | $99.92 | At Home, Staples |
| Sherman Centre | $4,722,000.00 | 8.00% | 91,800 | 100% | $51.44 | Ollie's, American Freight |
| Stow Workman Plaza | $10,469,348.00 | 6.50% | 51,620 | 98% | $202.82 | Marc's, Papa John's, The Basement Sports Bar |
| Ridgewood Crossing | $4,935,000.00 | 7.90% | 25,133 | 94% | $196.36 | Family Dentistry, Old Carolina Barbecue |
| Tara Plaza | $5,000,000.00 | 9.09% | 38,659 | 100% | $129.34 | Family Dollar, Family Development Services |

## Comps: Recently Closed

| Property Name | $ | Cap Rate | GLA | Occupancy | $ PSF | Major Tenants |
|---|---|---|---|---|---|---|
| Shoppes at S Main | $10,750,000 | 7.50% | 104,107 | 995% | $103.26 | Planet Fitness, Staples, TJ Maxx, Five Below, Petco |
| South Gate Center | $24,000,000 | 7.90% | 200,910 | 98% | $119.46 | Giant Eagle, Big Lots, Petco, DollarTree, BWW |
| Plaza Shopping Center | $10,600,000 | 9.33% | 178,297 | 87% | $59.45 | Planet Fitness, AutoZone, UPS Store, BWW |
| Hunter's Ridge | $10,000,000 | 8.00% | 84,724 | 93% | $118.03 | Planet Fitness, Goodwill, Great Clips, Jersey Mike's |
| Meijer Outparcel | $3,580,000 | 6.50% | 10,000 | 100% | $358.00 | 5 Guys, Penn Station, Detroit Wing Co |
| Benley Coe Plaza | $4,450,000 | 8.25% | 36,616 | 100% | $121.53 | Subway, Cricket, FastSigns, Danny's Pizza |

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